Public Sector Accounting Board

Re-exposure Draft

Employee Benefits, Proposed Section PS 3251

Employee Benefits, Proposed Section PS 3251

Re-exposure Draft

October 2024

This Re-exposure Draft closes for comments on January 20, 2025

The Public Sector Accounting Board (PSAB) welcomes feedback from any interested party on any or all the questions posed in this Re-exposure Draft.

You can provide feedback to the PSAB on the proposals in a variety of ways:

- Participate on Connect.FRASCanada.ca.
- Write a response letter and upload it via our online form. Response letters can be addressed to:

  Michael Puskaric, MBA, CPA, CMA
  Director, Public Sector Accounting
  Public Sector Accounting Board
  277 Wellington Street West
  Toronto ON M5V 3H2

Note: Response letters will be posted online shortly after this Re-exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in this Re-exposure Draft.
- If you identify a potential issue in this Re-exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- PSAB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

INTRODUCTION

This Re-exposure Draft outlines the proposed principles for the first phase of PSAB's employee benefits project. In the first phase, the Board focused its efforts on the topics of deferral provisions and discount rate. As communicated in the project update, future work will consider other topics such as non-traditional pension plans.

HIGHLIGHTS

PSAB proposes, subject to comments received following re-exposure, to issue a new standard, EMPLOYEE BENEFITS, Section PS 3251. This Section would replace RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255. Proposed Section PS 3251 would apply to public sector entities that base their accounting policies on the CPA Canada Public Sector Accounting (PSA) Handbook.

This Re-exposure Draft uses the principles from International Public Sector Accounting Standard (IPSAS) 39, *Employee Benefits*, as a starting point. In developing the July 2021 Exposure Draft, "Employee Benefits, Proposed Section PS 3251," PSAB amended IPSAS 39 principles that were either considered contrary to the Board's Conceptual Framework for Financial Reporting in the Public Sector or inappropriate for application in Canada based on the Canadian public interest. This Re-exposure Draft includes further amendments to discount rate proposals that are considered to be in the Canadian public interest, in response to feedback received to the July 2021 Exposure Draft.

The Basis for Conclusions document accompanying this Re-exposure Draft describes:

- how matters arising from comments received on PSAB's Invitations to Comment, "Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255" ("Deferral Provisions") and "Employment Benefits: Discount Rate Guidance in Section PS 3250" ("Discount Rate Guidance"), have been addressed in developing the July 2021 Exposure Draft;
- instances where IPSAS 39 principles were amended or not as they relate to deferral provisions and discount rate topics in developing the July 2021 Exposure Draft; and
- how matters arising from comments received on the July 2021 Exposure Draft have been addressed in this Re-exposure Draft.

MAIN FEATURES OF THE RE-EXPOSURE DRAFT

Overall, respondents supported the main features of the July 2021 Exposure Draft. Accordingly, many principles of this Re-exposure Draft remain substantially unchanged from when they were previously exposed in July 2021. These features include:

- Accounting guidance for short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits.
- Accounting for defined benefit plans that results in a public sector entity recognizing the following amounts in surplus or deficit:
  - current service cost;
  - any past service cost and gain or loss on settlement; and
  - net interest on the net defined benefit liability (asset).
- Remeasurements of the net defined benefit liability (asset), which are recognized in accumulated remeasurement gains and losses and are not reclassified to surplus or deficit in subsequent periods. Additional guidance has been included in the Re-exposure Draft, permitting the net reclassification of accumulated remeasurement gains and losses upon settlement of a post-employment benefit plan to accumulated surplus and deficit, where practicable.

In response to feedback received to the July 2021 Exposure Draft, PSAB determined that amendments to the proposals related to discount rate for defined benefit plans were in the Canadian public interest. The Board's due process requires limited re-exposure and requests feedback on these proposed amended features:

- The discount rate used in the measurement of a defined benefit plan is determined based on an assessment of the post-employment benefit plan's funding status, consistent with the July 2021 Exposure Draft. The funding status assessment has been simplified in this Re-exposure Draft such that:
  - fully funded post-employment benefit plans would apply a fully funded discount rate based on the expected return on plan assets, consistent with the July 2021 Exposure Draft; and
  - all post-employment benefit plans not meeting the definition of "fully funded" are proposed to apply an underfunded discount rate based on the market yields at the end of the reporting period on government bonds, high-quality corporate bonds or another financial instrument.
- The July 2021 Exposure Draft proposed that the funding status of a defined benefit plan be determined using an annual quantitative assessment of the sufficiency of the plan's existing assets to settle estimated obligation outflows. The funding status assessment has been simplified in this Re-exposure Draft such that:
  - A plan's funding status is assessed based on the consideration of primary and secondary indicators. Primary indicators of funding status include:
    - qualitative indicators of a plan's funding, based on the existence of regulatory, legislative or contractual funding requirements; and
    - quantitative indicators of a plan's funding, derived from the plan's most recently prepared actuarial valuation for funding purposes, in place of the separate annual quantitative assessment proposed in the July 2021 Exposure Draft.
  - The determination of a plan's funding status is based on the preponderance of evidence available. For some plans, sufficient evidence may exist based on consideration of primary indicators of funding status. Where insufficient evidence exists to support the assertion that a plan is fully funded based on primary indicators, secondary indicators that a plan is fully funded may be considered as part of the funding status assessment (paragraphs PS 3251.107-.108).
- The Re-exposure Draft's proposed amended discount rate approach may require significant professional judgment in assessing a plan's funding status, and uncertainty in the recognition and measurement of fully funded defined benefit plans. Accordingly, this Re-exposure Draft proposes to amend sensitivity disclosure requirements for fully funded plans to include the estimated impact of an underfunded discount rate on a public sector entity's defined benefit obligation.

BACKGROUND

This Re-exposure Draft outlines proposals for the proposed Section PS 3251. In its deliberations, PSAB focused on the topics of discount rate and deferral provisions. The comments requested in this Re-exposure Draft focus on these topics. In future phases of the revised employee benefits standard, the Board will consider proposals on additional topics, including specific guidance on accounting for risk-sharing provisions in public sector pension plans in Canada and other types of non-traditional plans.

Due to the phased approach of starting with IPSAS 39, principles or definitions within this Re-exposure Draft that relate to the topics of risk-sharing and non-traditional plans may be deliberated by the Board during a future phase of the project. The Board may revisit some of the principles or definitions in this Re-exposure Draft during future phases. This Re-exposure Draft's objective is to finalize the core principles for discount rate guidance and deferral provisions.

The Board considered the responses to the July 2021 Exposure Draft when preparing this Re-exposure Draft. Respondents are asked to focus their comments on the amended discount rate proposals.

IMPLICATIONS OF THE AMENDED PROPOSALS

Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2029. Earlier adoption is encouraged.

The proposals' intent is to improve understandability of the financial reporting of employee benefits and provide financial statement users with better information for accountability purposes.

This proposed Section would result in a public sector entity recognizing the impact of remeasurements of the net defined benefit liability (asset) immediately on the statement of financial position. This will enhance the usefulness of information provided to financial statement users by faithfully representing the plan's surplus or deficit position and providing relevant, verifiable, comparable and understandable information.

This proposed Section would require a public sector entity to assess the funding status of its defined benefit post-employment benefit plan(s) to determine the appropriate rate for discounting post-employment benefit obligations. Doing so would result in a net benefit liability (asset) that would faithfully reflect the public sector entity's obligation to the plan, the long-term nature of the plan arrangement and the substance of the plan arrangement.

Consequential amendments

The proposed consequential amendments are summarized on pages 50-53.

COMMENTS REQUESTED

PSAB welcomes comments from individuals, governments and organizations, particularly on these identified aspects of this Re-exposure Draft. The most significant issue raised in response to the July 2021 Exposure Draft related to the proposed approach for determining the funding status of a defined benefit plan and, therefore, the discount rate for the measurement of a defined benefit obligation.

Therefore, PSAB asks that respondents to this Re-exposure Draft focus on the areas noted above as amendments unless you have new issues or new concerns to raise with the other proposals or feel strongly that the Board should reconsider its position on any other proposals.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify, generically, the sources of the comments in the responses (e.g., budget or treasury officials or financial statements preparers). This promotes an understanding of how the proposals affect various aspects of an organization.

Please respond to the following questions:

1. Do you agree with the amended discount rate proposals for defined benefit plans (paragraphs PS 3251.100-.116) and accompanying illustrative examples (paragraphs PS 3251.IE.27-IE.39)? If not, why?

2. Do you agree with the proposal for sensitivity disclosure for fully funded plans to include the impact of an underfunded discount rate on a public sector entity's defined benefit obligation (paragraph PS 3251.168)? If not, why?

3. The Re-exposure Draft proposes Section PS 3251 be effective for fiscal years beginning on or after April 1, 2029 (paragraph PS 3251.199). Do you agree that the proposed Section should be applied no earlier than this date? If not, why?

4. Do you have any new issues or new concerns to raise with the other proposals in the document or feel strongly that PSAB should reconsider its position on any other proposals?

EMPLOYEE BENEFITS

TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

.001 This Section establishes standards on how to account for and report obligations for **employee benefits** in a public sector entity's financial statements. This Section requires a public sector entity to recognize:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the public sector entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

.002 In this Section, terms that appear in **bold type** are defined in the Glossary.

.003 Accounting for all of the employee benefits incurred by a public sector entity is particularly important because many public sector entities have accumulated significant liabilities. Where those liabilities have not been recorded, financial statements do not adequately provide all of the information users need to help them assess a public sector entity's financial position and results of operations. It is important that financial statements account for a public sector entity's liabilities for all employee benefits to clearly show the extent to which these obligations are to be paid from cash to be raised from future tax and/or other revenue sources.

.004 *This Section should be applied by a public sector entity in accounting for all employee benefits.*

.005 This Section does not deal with benefits provided by contributory social benefit programs that are not consideration in exchange for services rendered by employees or past employees of a public sector entity.

.006 The employee benefits to which this Section applies include those provided:

(a) under formal plans or other formal agreements between a public sector entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby public sector entities are required to contribute to, for example, national, provincial or territorial, Indigenous, municipal, industry, **joint defined benefit plans** or other **multi-employer plans**; or

(c) by those informal practices that give rise to a liability resulting from a constructive obligation.[1] Informal practices may give rise to a liability resulting from a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits. An example of a liability resulting from a constructive obligation is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees.

.007 Employee benefits include:

(a) **short-term employee benefits**, such as the following, if expected to be settled within 12 months after the end of the reporting period in which the employees render the related services:

(i) wages and salaries;

(ii) paid annual leave and non-accumulating paid sick leave;

(iii) bonuses; and

(iv) non-monetary benefits (e.g., medical care) for current employees;

1 Determining the existence of a liability resulting from a constructive obligation would require the exercise of professional judgment, the consideration of individual circumstances and the criteria for recognition of a liability in accordance with LIABILITIES, Section PS 3200.

(b) **post-employment benefits**, such as the following:

(i) retirement benefits (e.g., pensions and lump-sum payments on retirement); and

(ii) other post-employment benefits (e.g., life insurance and medical care);

(c) **other long-term employee benefits**, such as the following:

(i) long-term paid absences (e.g., long-service leave, sabbatical leave, and accumulating paid sick leave);

(ii) other long-service benefits; and

(iii) long-term disability benefits; and

(d) **termination benefits**.

.008 Employee benefits include benefits provided either to employees or to their dependents, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependents, or to others, such as insurance companies.

.009 An employee may provide services to a public sector entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Section, employees include key management personnel as defined in RELATED PARTY DISCLOSURES, Section PS 2200.

SHORT-TERM EMPLOYEE BENEFITS

.010 A public sector entity need not reclassify a short-term employee benefit (see paragraph PS 3251.007(a)) if the public sector entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (e.g., a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the public sector entity considers whether the benefit still meets the definition of a short-term employee benefit.

Recognition and measurement

All short-term employee benefits

.011 *When an employee has rendered service to a public sector entity during an accounting period, the public sector entity should recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:*

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, a public sector entity should recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, except to the extent they are recognized within the cost of assets or liabilities under TANGIBLE CAPITAL ASSETS, Section PS 3150, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, or ASSET RETIREMENT OBLIGATIONS, Section PS 3280.

.012 For additional guidance on how a public sector entity would apply paragraph PS 3251.011 to short-term employee benefits in the form of paid absences and bonus plans, refer to paragraphs PS 3251.013, PS 3251.016 and PS 3251.019.

Short-term paid absences

.013 *A public sector entity should recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph PS 3251.011 as follows:*

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and

(b) in the case of non-accumulating paid absences, when the absences occur.

.014 A public sector entity may pay employees for absence for various reasons, including holidays, sickness, short-term disability, maternity or paternity leave, jury duty and military service. Entitlement to paid absences falls into one of two categories:

(a) accumulating; or

(b) non-accumulating.

.015 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (i.e., employees are entitled to a cash payment for unused entitlement on leaving the public sector entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation that meets the definition of a "liability" arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognized, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

.016 *A public sector entity should measure the expected cost of accumulating paid absences as the additional amount that the public sector entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.*

.017 The method specified in paragraph PS 3251.016 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, a public sector entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences.

.018 Non-accumulating paid absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the public sector entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and paid absences for jury duty or military service. A public sector entity recognizes no liability or expense until the time of the absence because employee service does not increase the amount of the benefit.

Bonus plans

.019 *A public sector entity should recognize the expected cost of bonus payments under paragraph PS 3251.011 when, and only when:*

(a) the public sector entity has a present obligation that meets the definition of a "liability", including a liability resulting from a constructive obligation[2] *to make such payments as a result of past events; and*

(b) an estimate of the obligation that faithfully represents the obligation of the public sector entity, can be made.

A present obligation exists when, and only when, the public sector entity has no realistic alternative but to make the payments.[3]

2 Determining the existence of a liability resulting from a constructive obligation would require the exercise of professional judgment, the consideration of individual circumstances and the criteria for recognition of a liability in accordance with LIABILITIES, Section PS 3200.

3 For further guidance, refer to LIABILITIES, paragraphs PS 3200.07-.17.

.020 Some public sector entities may have a bonus plan that is related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the public sector entity or a segment of the public sector entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Some public sector entities may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the public sector entity before the end of the reporting period. However, under other bonus plans, employees receive payments only if they remain with the public sector entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans may create a liability resulting from a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. Paragraph PS 3251.022 provides further conditions that are to be satisfied before a public sector entity would recognize the expected cost of performance-related payments, and bonus payments.

.021 A public sector entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, a public sector entity has a practice of paying bonuses. In such cases, the public sector entity may have a liability resulting from a constructive obligation because the public sector entity has no realistic alternative but to pay the bonus. The measurement of the liability resulting from a constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

.022 A public sector entity can make an estimate that faithfully represents its legal obligation or liability resulting from a constructive obligation under a performance-related payment plan, or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;

(b) the public sector entity determines the amounts to be paid before the financial statements are authorized for issue; or

(c) past practice gives clear evidence of the amount of the public sector entity's liability resulting from a constructive obligation.

.023 If bonus payments are not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs PS 3251.176-.184).

Disclosure

.024 *For short-term employee benefits, financial statements should report employee benefit expense by function on the statement of operations and employee benefit liabilities as a separate line on the statement of financial position.*

.025 *For short-term employee benefits, financial statements should also disclose:*

(a) adequate information about the nature and terms of a public sector entity's liabilities related to employee benefits; and

(b) the employee benefit expense of the accounting period recognized in the statement of operations by object in the notes or schedules.

POST-EMPLOYMENT BENEFITS – DISTINCTION BETWEEN DEFINED CONTRIBUTION AND DEFINED BENEFIT PLANS

.026 Post-employment benefits include items such as the following:

(a) retirement benefits (e.g., pensions and lump-sum payments on retirement); and

(b) other post-employment benefits (e.g., life insurance and medical care).

Arrangements whereby a public sector entity provides post-employment benefits are **post-employment benefit plans**. A public sector entity applies this Section to all such arrangements, whether they involve the establishment of a separate entity, such as a pension plan, superannuation plan or retirement benefit plan, to receive contributions and to pay benefits.

.027 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on the economic substance of the plan, as derived from its principal terms and conditions.

.028 Under defined contribution plans, the public sector entity's legal obligation or liability resulting from a constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by a public sector entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

.029 Examples of cases where a public sector entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the public sector entity has a legal obligation or liability resulting from a constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions and requires the public sector entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a liability resulting from a constructive obligation. For example, a liability resulting from a constructive obligation may arise where a public sector entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

.030 Under defined benefit plans:

(a) the public sector entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the public sector entity. If actuarial or investment experience are worse than expected, the public sector entity's obligation may be increased.

.031 Paragraphs PS 3251.032-.051 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between public sector entities under common control, joint defined benefit plans and insured benefits.

Multi-employer plans

.032 *A public sector entity should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any liability resulting from a constructive obligation that goes beyond the formal terms).*

.033 *If a public sector entity participates in a multi-employer defined benefit plan, unless paragraph PS 3251.034 applies, it should:*

- *(a) account for its proportionate share of the defined benefit obligation,* ***plan assets*** *and cost associated with the plan in the same way as for any other defined benefit plan; and*
- *(b) disclose the information required by paragraphs PS 3251.157-.171 (excluding paragraph PS 3251.171(d)).*

.034 *When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, a public sector entity should:*

- *(a) account for the plan in accordance with paragraphs PS 3251.053-.054 as if it were a defined contribution plan; and*
- *(b) disclose the information required by paragraph PS 3251.171.*

.035 One example of a multi-employer defined benefit plan is one where employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the public sector entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the public sector entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

.036 Where sufficient information is available about a multi-employer defined benefit plan, a public sector entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, a public sector entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

- (a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or
- (b) the public sector entity does not have access to sufficient information about the plan that satisfies the requirements of this Section.

In those cases, a public sector entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph PS 3251.171(d).

.037 There may be a contractual agreement between the multi-employer plan and its participating entity that determines how the **surplus** in the plan will be distributed to the participating entities (or the **deficit** funded). A participating entity in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph PS 3251.034 would recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

.038 Multi-employer plans are distinct from group administration plans.[4] A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to

4 Group administration plans may also be referred to as "multiple-employer plans".

pool their assets for investment purposes and reduce investment-management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan, and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. A public sector entity would classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any liability resulting from a constructive obligation that goes beyond the formal terms).

.039 *In determining when to recognize, and how to measure, a liability relating to the* ***settlement*** *of a multi-employer defined benefit plan, or the public sector entity's withdrawal from a multi-employer defined benefit plan, a public sector entity should apply LIABILITIES, Section PS 3200, or CONTINGENT LIABILITIES, Section PS 3300.*

Defined benefit plans that share risks between public sector entities under common control

.040 Defined benefit plans that share risks among various public sector entities under common control are not multi-employer plans. GOVERNMENT REPORTING ENTITY, Section PS 1300, outlines indicators of control.

.041 A public sector entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Section on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Section to individual public sector entities within the government reporting entity, the public sector entity would recognize the net defined benefit cost so charged. If there is no such agreement, arrangement or policy, the net defined benefit cost would be recognized in the financial statements of the controlling public sector entity for the plan. The controlled public sector entities would, in their financial statements, on a defined contribution basis, recognize a cost equal to their contribution payable for the period.

.042 *Unless there is a contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost, a controlled public sector entity should disclose:*

(a) that it accounts on a defined contribution basis;

(b) details of the controlling public sector entity, and state that, in the controlling public sector entity's consolidated financial statements, accounting is on a defined benefit basis; and

(c) the disclosures required in paragraph PS 3251.173.

.043 *Participation in such a plan is a related party transaction for each participating public sector entity. A participating public sector entity should, therefore, disclose the information required by paragraph PS 3251.173.*

Joint defined benefit plans

.044 Public sector entities may participate jointly in defined benefit plans where the public sector entity shares the risks and rewards jointly with plan participants. Joint defined benefit plans are governed by a formal agreement or legislation, which establishes shared control over the plan. A governing board is generally appointed with equal representation and a mutually agreed-upon chair.

.045 A public sector entity would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the public sector entity and the plan members. The representatives of the public sector entity and plan members have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The significant risks associated with the benefit plan are shared on an equitable basis. Risk would not be considered to be equitably shared in an arrangement where the public sector entity and the other participants fund the plan equally but where the public sector entity retains the full risk of the accrued benefit obligation. If the public sector entity retains the residual risks, it is unlikely that the plan meets the definition of a joint defined benefit plan.

.046 *When a public sector entity participates in a joint defined benefit plan, the public sector entity's risk is limited to its portion of the plan. The public sector entity should account for its proportionate share of the defined benefit obligation, plan assets, and costs associated with the plan in the same way as for a defined benefit plan (see paragraphs PS 3251.059-.175).*

.047 A public sector entity may convert an existing defined benefit plan to a joint defined benefit plan. When converting to a joint plan, a public sector entity would consider any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed (see paragraphs PS 3251.117-.131). In assessing such issues, a public sector entity would consider its specific circumstances and the terms of the joint defined benefit plan.

Insured benefits

.048 *A public sector entity may pay insurance premiums to fund a post-employment benefit plan. The public sector entity should treat such a plan as a defined contribution plan unless the public sector entity will have (either directly, or indirectly through the plan) a liability, including those resulting from a constructive obligation[5] either:*

(a) to pay the employee benefits directly when they fall due; or

(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the public sector entity retains such a liability, the public sector entity should treat the plan as a defined benefit plan.

.049 The benefits insured by an insurance policy need not have a direct or automatic relationship with the public sector entity's obligation for employee benefits.

.050 Where a public sector entity funds a post-employment benefit obligation by contributing to an insurance policy under which the public sector entity (either directly, indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer) retains a liability, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the public sector entity:

(a) accounts for a **qualifying insurance policy** as a plan asset; and

(b) recognizes other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph PS 3251.135).

5 Determining the existence of a liability resulting from a constructive obligation would require the exercise of professional judgment, the consideration of individual circumstances and the criteria for recognition of a liability in accordance with LIABILITIES, Section PS 3200.

.051 Where an insurance policy is in the name of a specified plan participant or a group of plan participants, and the public sector entity does not have any liability to cover any loss on the policy, the public sector entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the public sector entity no longer has an asset or a liability. Therefore, a public sector entity treats such payments as contributions to a defined contribution plan.

POST-EMPLOYMENT BENEFITS – DEFINED CONTRIBUTION PLANS

.052 Accounting for defined contribution plans is straightforward because the public sector entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any **actuarial gains or losses**. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service.

Recognition and measurement

.053 *When an employee has rendered service to a public sector entity during a period, the public sector entity should recognize the contribution payable to a defined contribution plan in exchange for that service:*

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, a public sector entity should recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, except to the extent they are recognized within the cost of assets or liabilities under TANGIBLE CAPITAL ASSETS, Section PS 3150, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, or ASSET RETIREMENT OBLIGATIONS, Section PS 3280.

.054 *When contributions to a defined contribution plan are not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service, they should be discounted using a rate consistent with the discount rate for underfunded defined benefit plans as specified in paragraph PS 3251.113.*

Disclosure

.055 *For defined contribution plans, a public sector entity should disclose:*

(a) a general description of the post-employment benefit plan, contribution formulas and funding policy;

(b) the amount recognized as an expense for defined contribution plans; and

(c) a description of significant changes to benefit plans during the period.

.056 The description of significant changes to the post-employment benefit plans during the period and contribution formulas might include:

(a) demographic information about the participants;

(b) information on which employee group(s) are affected; or

(c) a description of the impact of such changes on current and future post-employment benefit obligations and related expenses.

.057 The description of the funding policy might include:

(a) employee and public sector entity contributions during the period;

(b) major types of plan assets including total amounts and the basis for their valuation; and

(c) the extent to which the post-employment benefit plan holds securities of participating public sector and third-party entities.

.058 The level of detail disclosed by public sector entities would reflect the highly aggregated nature of financial statements. In deciding the level of detail to disclose, public sector entities would consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with, a public sector entity's post-employment benefit plans. The level of disclosure would also consider the sensitivity of the information in relation to the public sector entity's financial position.

POST-EMPLOYMENT BENEFITS – DEFINED BENEFIT PLANS

.059 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

.060 Defined benefit plans may be unfunded, or they may be fully or partially funded by contributions by a public sector entity, and sometimes its employees, into an entity, or fund, that is often legally separate from the public sector entity and from which the employee benefits are paid or funded. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance associated with the contributions provided but also on a public sector entity's ability, and willingness, as well as possibly that of its employees, to make good on any shortfall. Therefore, the public sector entity is, in substance, underwriting actuarial and investment risks associated with the plan. Consequently, the expense recognized for a defined benefit plan is not necessarily just the amount of the contribution due for the period.

.061 Accounting by a public sector entity for defined benefit plans involves the following steps:

(a) Determining the cumulative plan **deficit or surplus**. This involves:

  (i) using an actuarial technique, the projected unit credit method, to prepare an estimate that faithfully represents the ultimate cost to the public sector entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs PS 3251.072-.074). This requires a public sector entity to determine how much benefit is attributable to the current and prior periods (see paragraphs PS 3251.075-.079), and to make estimates (actuarial assumptions) about demographic variables (e.g., employee turnover and mortality) and financial variables (e.g., future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs PS 3251.080-.116);

  (ii) discounting that benefit in order to determine the **present value of the defined benefit obligation** and the current **service cost** (see paragraphs PS 3251.072-.074 and PS 3251.100-.116); and

  (iii) deducting the fair value of any plan assets (see paragraphs PS 3251.132-.134) from the present value of the defined benefit obligation.

(b) Determining the amount of the **net defined benefit liability (asset)** as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the **asset ceiling** (see paragraph PS 3251.069);

(c) Determining amounts to be recognized in annual surplus or deficit:

(i) current service cost (see paragraphs PS 3251.075-.079 and paragraph PS 3251.142);

(ii) any past service cost and gain or loss on settlement (see paragraphs PS 3251.117-.131); and

(iii) **net interest on the net defined benefit liability (asset)** (see paragraphs PS 3251.143-.148).

(d) Determining the **remeasurements of the net defined benefit liability (asset)**, to be recognized in accumulated remeasurement gains and losses, comprising:

(i) actuarial gains and losses (see paragraphs PS 3251.150-.151);

(ii) **return on plan assets**, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph PS 3251.152); and

(iii) any change in the effect of the asset ceiling (see paragraph PS 3251.069), excluding amounts included in net interest on the net defined benefit liability (asset).

Where a public sector entity has more than one defined benefit plan, the public sector entity applies these procedures for each material plan separately.

.062 *A public sector entity should determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.*

.063 When making actuarial assumptions in the measurement of material post-employment benefit obligations, a public sector entity would obtain expert assistance from internal or external sources. One source of expert assistance is the qualified actuary carrying out the actuarial computations required in the preparation of an **actuarial valuation for accounting purposes**. Periodic assessments are needed to ensure that the assumptions continue to be relevant. For practical reasons, a public sector entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

.064 In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations required by this Section.

Accounting for the liability resulting from a constructive obligation

.065 *A public sector entity should account not only for its liability arising from the formal terms of a defined benefit plan or by legislation, but also for any liability resulting from a constructive obligation that arises from the public sector entity's informal practices. Informal practices may give rise to a liability resulting from a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits.*[6]

.066 An example of a liability resulting from a constructive obligation is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees.

.067 The formal terms of a defined benefit plan may permit a public sector entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for a public sector entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that a public sector entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

6 Determining the existence of a liability resulting from a constructive obligation would require the exercise of professional judgment, the consideration of individual circumstances and the criteria for recognition of a liability in accordance with LIABILITIES, Section PS 3200.

Statement of financial position

.068 *A public sector entity should recognize the net defined benefit liability (asset) as a liability (asset) in the statement of financial position.*

.069 *When a public sector entity has a surplus in a defined benefit plan, it should measure the net defined benefit asset at the lower of:*

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in paragraphs PS 3251.109-.112.

.070 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. A public sector entity recognizes a net defined benefit asset in such cases because:

(a) the public sector entity controls the economic resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of a transaction that has already occurred (contributions paid by the public sector entity and service rendered by the employee); and

(c) future economic benefits are available to the public sector entity in the form of a reduction in future contributions or a cash refund, either directly to the public sector entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and measurement – Present value of defined benefit obligations and current service cost

.071 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain, and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

(a) to apply an actuarial valuation method (see paragraphs PS 3251.072-.074);

(b) to attribute benefit to periods of service (see paragraphs PS 3251.075-.079); and

(c) to make actuarial assumptions (see paragraphs PS 3251.080-.116).

Actuarial valuation method

.072 *A public sector entity should use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.*

.073 The projected unit credit method (sometimes known as the "accrued benefit method prorated on service" or as the "benefit/years of service method") sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs PS 3251.075-.079) and measures each unit separately to build up the final obligation (see paragraphs PS 3251.080-.116).

.074 A public sector entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before 12 months after the reporting period.

Attributing benefit to periods of service

.075 *In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a public sector entity should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity should attribute benefit on a straight-line basis from:*

(a) the date when service by the employee first leads to benefits under the plan (whether the benefits are conditional on further service) until,

(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

.076 The projected unit credit method requires a public sector entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the **present value of defined benefit obligations**). A public sector entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that a public sector entity expects to pay in future reporting periods. Actuarial techniques allow a public sector entity to measure that obligation in a way that faithfully represents the liability, supporting recognition of the liability.

.077 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (i.e., they are not vested). Employee service before the vesting date gives rise to a liability resulting from a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, a public sector entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits become payable only if a specified event occurs when an employee is no longer employed (e.g., post-employment medical benefits), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.

.078 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

.079 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph PS 3251.075(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial assumptions

.080 *Actuarial assumptions should be unbiased and mutually compatible.*

.081 Actuarial assumptions are a public sector entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) Demographic assumptions about the future characteristics of current and former employees (and their dependents) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality (see paragraphs PS 3251.086-.087);

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependents who will be eligible for benefits;

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans.

(b) Financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs PS 3251.100-.116);

(ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs PS 3251.088-.096);

(iii) in the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs PS 3251.097-.099); and

(iv) taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

.082 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

.083 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

.084 A public sector entity determines the discount rate and other financial assumptions in nominal (stated) terms.

.085 *Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.*

Actuarial assumptions – Mortality

.086 *A public sector entity should determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.*

.087 In order to estimate the ultimate cost of the benefit, a public sector entity takes into consideration expected changes in mortality, for example, by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions – Salaries, benefits and medical costs

.088 *A public sector entity should measure its defined benefit obligations on a basis that reflects:*

(a) the benefits set out in the terms of the plan (or any liability resulting from a constructive obligation that goes beyond those terms) at the end of the reporting period;

(b) any estimated future salary increases that affect the benefits payable;

(c) the effect of any limit on the public sector entity's share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the public sector entity of those benefits; and

(e) estimated future changes in the level of benefit entitlements from social benefit programs as per paragraph PS 3251.096 that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

  (ii) *historical data, or other reliable evidence, indicate that those benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.*

.089 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a liability resulting from a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) the public sector entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) the public sector entity is obliged, by either the formal terms of a plan (or a liability resulting from a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph PS 3251.127(c)); or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

.090 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a liability resulting from a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) past service cost, to the extent that they change benefits for service before the change; and

(b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

.091 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

.092 Some defined benefit plans limit the contributions that a public sector entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) the estimated life of the public sector entity; and

(b) the estimated life of the plan.

.093 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the public sector entity. A public sector entity considers whether third-party contributions reduce the cost of the benefits to the public sector entity, or are a reimbursement right as described in paragraph PS 3251.135. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a liability resulting from a constructive obligation that goes beyond those terms) or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

.094 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service) or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) if the amount of the contributions is dependent on the number of years of service, a public sector entity would attribute the contributions to periods of service using the same attribution method required by paragraph PS 3251.075 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or

(b) if the amount of the contributions is independent of the number of years of service, the public sector entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

.095 For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph PS 3251.094(a), changes in the contributions result in:

(a) current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a liability resulting from a constructive obligation); or

(b) actuarial gains and losses (if those changes are set out in the formal terms of a plan or arise from a liability resulting from a constructive obligation).

.096 Some post-employment benefits are linked to variables such as the level of benefit entitlements from social benefit programs or provincial and territorial health care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

.097 *Assumptions about medical costs should take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.*

.098 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. A public sector entity estimates future medical costs on the basis of historical data about the public sector entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care use or delivery patterns and changes in the health status of plan participants.

.099 The level and frequency of claims is particularly sensitive to the age, health status and gender of employees (and their dependents) and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Actuarial assumptions – Discount rate

.100 *The rate used to discount post-employment benefit obligations should reflect the time value of money.*

.101 One actuarial assumption that has a material effect is the discount rate. When determining the discount rate, consideration of the funding status of the post-employment benefit plan is required, as outlined in paragraphs PS 3251.102-.108.

Actuarial assumptions – Discount rate: Funding status

.102 The funding status of a post-employment benefit plan may be either:

(a) **fully funded**, whereby sufficient plan assets have been set aside to fulfill its post-employment benefit obligations to current plan members and their beneficiaries; or

(b) **underfunded**, where insufficient assets have been set aside to fulfill its post-employment benefit obligations to current plan members and their beneficiaries.

.103 *A public sector entity should, at the end of each fiscal year-end, assess the funding status of a post-employment benefit plan to determine the appropriate rate for discounting the associated obligations.*

.104 Based on a public sector entity's assessment of a post-employment benefit plan's funding status, an entity would apply a discount rate as follows:

(a) For fully funded plans – a discount rate determined in accordance with paragraph PS 3251.109; or

(b) For underfunded plans – a discount rate determined in accordance with paragraph PS 3251.113.

.105 A plan's funding status requires the application of professional judgment when assessing the unique circumstances and characteristics of a post-employment benefit plan. Given the long-term nature of benefit obligations, an assessment of funding status based on a single factor (e.g., as a regulatory, legislative or contractual funding requirement) would not necessarily indicate whether sufficient plan assets have been set aside to fulfill post-employment obligations to current plan members and their beneficiaries. Rather, an assessment would be based on the preponderance of evidence.

.106 Certain primary indicators provide more persuasive evidence that a plan is fully funded:

(a) The plan's funding policy – Does the public sector entity have a formal funding policy as set out in legislation, by-laws or contractual agreement that requires sufficient plan assets be set aside to fulfill post-employment obligations to current plan members and their beneficiaries?

(b) The plan's actuarial valuation for funding purposes – Where prepared to comply with regulatory, legislative, or contractual requirements, does the plan's most recent valuation support a fully funded status? For the purposes of this Section, an actuarial valuation for funding purposes does not include a valuation prepared using a solvency, wind-up or similar valuation basis.

.107 In many cases, consideration of the primary indicators of paragraph PS 3251.106 may be sufficient to determine a plan's funding status. Where primary indicators are insufficient, other secondary indicators may be relevant; for example, where temporary volatility or significant subsequent events occur such that the plan's most recently prepared actuarial valuation for funding purposes does not faithfully represent the plan's funding status as of the financial reporting date. Other indicators of a plan's funding status may include the public sector entity's practices – Is the public sector entity demonstrably committed to ensuring sufficient assets are set aside to provide for a specified portion of the post-employment benefits? For example:

(a) The public sector entity's corrective actions: When plan assets are considered insufficient to provide for post-employment benefits and the public sector entity has determined the insufficiency is the result of long-term expectation changes, actions taken by the public sector entity to correct the shortfall in a timely manner may be indicators of a plan that is fully funded.

(b) The public sector entity's accuracy in assessing historical fluctuations: Where the public sector entity can accurately determine whether shortfalls in plan assets (including projected balances) are the result of long-term or temporary fluctuations, historical evidence may indicate whether assessments have been accurate, supporting an assessment that the plan is fully funded.

(c) The public sector entity's historical actions: Historical evidence that the plan is consistently fully funded (including the sufficiency of historic corrective actions taken) may demonstrate that the plan is committed to ensuring sufficient plan assets are set aside to satisfy its post-employment obligations, supporting an assessment that the plan is fully funded.

.108 In addition to the secondary indicators outlined in paragraphs PS 3251.107(a)-(c), professional judgment may be required to assess the unique circumstances and characteristics of a post-employment benefit plan in determining funding status.

Actuarial assumptions – Discount rate: Fully funded plans

.109 *For fully funded plans, the time value of money is interpreted as a discount rate that approximates the expected market-based return, at the end of the reporting period, on plan assets.*

.110 For post-employment benefit plans that will be fully funded by plan assets, the discount rate used to discount the post-employment benefit obligation would reflect the economic substance of the benefit plan arrangement. In these cases, the public sector entity has objective evidence in accordance with paragraphs PS 3251.105-.108 to support the assertion there will be sufficient plan assets set aside solely for fulfilling the obligation. Plan assets are invested following an investment strategy designed to fulfill benefit payments to current plan members and their beneficiaries.

.111 In determining the expected market-based return on plan assets, the public sector entity's expected investment return on the assets of the plan at the end of the reporting period and any known changes to be made to the investment policy after the end of the reporting period would be considered.

.112 The expected market-based return on plan assets would be calculated based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled, in accordance with paragraph PS 3251.085. Professional judgment and estimation techniques may be needed to determine of expected market-based return on some plan assets, such as where no active market exists for the calculating this return. Expert assistance may be necessary when making actuarial assumptions in the measurement of material post-employment benefit obligations, in accordance with paragraph PS 3251.063.

Actuarial assumptions – Discount rate: Underfunded plans

.113 *For underfunded plans, the time value of money is interpreted as a discount rate determined by reference to market yields at the end of the reporting period on government bonds, high-quality corporate bonds, or by another financial instrument with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations.*

.114 The discount rate applied for underfunded plans reflects the time value of money, in exclusion of actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the public sector entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions. The currency and term of the financial instrument selected to reflect the time value of money would be consistent with the currency and expected term of the post-employment benefit obligations.

.115 The discount rate reflects the estimated timing of benefit payments. In practice, a public sector entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.

.116 An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds, high-quality corporate bonds, or by another financial instrument. In some circumstances, market yields at the end of the reporting period on government bonds will provide the best approximation of the time value of money. However, there may be circumstances in which this is not the case, for example, where no deep market in government bonds exists, or in which market yields at the end of the reporting period on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high-quality corporate bonds. There may also be circumstances where there is no deep market in government bonds or high-quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such circumstances, an entity uses current market rates of the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument (e.g., government or corporate bonds).

Past service cost and gains and losses on settlement

.117 *When determining past service cost, or a gain or loss on settlement, a public sector entity should remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:*

(a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and

(b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

.118 A public sector entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when a public sector entity changes the benefits under the plan and settles the amended benefits later. In those cases, a public sector entity recognizes past service cost before any gain or loss on settlement.

.119 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

.120 When a plan amendment, curtailment or settlement occurs, a public sector entity would recognize and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs PS 3251.117-.131. In doing so, a public sector entity would not consider the effect of the asset ceiling. A public sector entity would then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and would recognize any change in that effect in accordance with paragraph PS 3251.061(d).

Past service cost

.121 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

.122 *A public sector entity should recognize past service cost as an expense at the earlier of the following dates:*

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognizes related termination benefits (see paragraph PS 3251.191).

.123 A plan amendment occurs when a public sector entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

.124 A curtailment occurs when a public sector entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or organization, or termination or suspension of a plan.

.125 Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

.126 Where a public sector entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the public sector entity treats the change as a single net change.

.127 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) underestimates and overestimates of discretionary pension increases when a public sector entity has a liability resulting from a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognized in the financial statements if the public sector entity is obliged, by either the formal terms of a plan (or a liability resulting from a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph PS 3251.089); and

(d) the increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph PS 3251.077) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the public sector entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and losses on settlement

.128 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the public sector entity in connection with the settlement.

.129 *A public sector entity should recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.*

.130 A settlement occurs when a public sector entity enters into a transaction that eliminates all further liability for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant public sector entity obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump-sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

.131 In some cases, a public sector entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the public sector entity retains a liability (see paragraph PS 3251.048) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs PS 3251.135-.138 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement – Plan assets

Fair value of plan assets

.132 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the cumulative plan deficit or surplus.

.133 Plan assets exclude unpaid contributions due from the public sector entity to the fund, as well as any non-transferable financial instruments issued by the public sector entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

.134 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

.135 *When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, a public sector entity should:*

(a) recognize its right to reimbursement as a separate asset. The public sector entity should measure the asset at fair value.

(b) disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs PS 3251.146 and PS 3251.148). The components of defined benefit cost recognized in accordance with paragraph PS 3251.139 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.

.136 Sometimes, a public sector entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies are plan assets. A public sector entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph PS 3251.135 is not relevant (see paragraphs PS 3251.048-.051 and PS 3251.134).

.137 When an insurance policy held by a public sector entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph PS 3251.135 is relevant to such cases: the public sector entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph PS 3251.162(b) requires the public sector entity to disclose a brief description of the link between the reimbursement right and the related obligation.

.138 If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

.139 *A public sector entity should recognize the components of defined benefit cost, except to the extent they are recognized within the cost of assets or liabilities under TANGIBLE CAPITAL ASSETS, Section PS 3150, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, or ASSET RETIREMENT OBLIGATIONS, Section PS 3280, as follows:*

(a) service cost (see paragraphs PS 3251.071-.131 and paragraph PS 3251.142) in surplus or deficit;

(b) net interest on the net defined benefit liability (asset) (see paragraphs PS 3251.143-.148) in surplus or deficit; and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs PS 3251.149-.152) in accumulated remeasurement gains and losses.

.140 *Remeasurements of the net defined benefit liability (asset) recognized in accumulated remeasurement gains (losses) should not be reclassified to surplus or deficit in a subsequent period.*

.141 Remeasurements of the net defined benefit liability (asset) would be presented separately from other remeasurements recognized within the accumulated remeasurement gains (losses) component.

Current service cost

.142 *A public sector entity should determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if a public sector entity remeasures the net defined benefit liability (asset) in accordance with paragraph PS 3251.117, it should determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph PS 3251.117(b).*

Net interest on the net defined benefit liability (asset)

.143 *A public sector entity should determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate used for the defined benefit obligation in accordance with paragraphs PS 3251.104-.108.*

.144 *To determine net interest in accordance with paragraph PS 3251.143, a public sector entity should use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if a public sector entity remeasures the net defined benefit liability (asset) in accordance with paragraph PS 3251.117, the public sector entity should determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:*

(a) the net defined benefit liability (asset) determined in accordance with paragraph PS 3251.117(b); and

(b) the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph PS 3251.117(b).

.145 *In applying paragraph PS 3251.144, the public sector entity should also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.*

.146 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph PS 3251.069.

.147 Interest revenue on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph PS 3251.144. A public sector entity would determine the fair value of the plan assets at the start of the reporting period. However, if a public sector entity remeasures the net defined benefit liability (asset) in accordance with paragraph PS 3251.117, the public sector entity would determine interest revenue for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph PS 3251.117(b). The public sector entity would also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

.148 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph PS 3251.144(b). A public sector entity would determine the effect of the asset ceiling at the start of the annual reporting period. However, if a public sector entity remeasures the net defined benefit liability (asset) in accordance with paragraph PS 3251.117, the public sector entity would determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph PS 3251.120. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

.149 Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses (see paragraphs PS 3251.150-.151);

(b) the return on plan assets (see paragraph PS 3251.152), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph PS 3251.147); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph PS 3251.148).

.150 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes to assumptions concerning benefit payment options;

(c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) the effect of changes in the discount rate.

.151 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

.152 In determining the return on plan assets, a public sector entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph PS 3251.081). Other administration costs are reflected in service cost and are not deducted from the return on plan assets.

Remeasurement gains (losses) on plan settlement

.153 *When practicable, a public sector entity should reclassify any remaining related accumulated remeasurement gains (losses) from accumulated remeasurement gains and losses to accumulated surplus or deficit in the period settlement occurs.*

.154 *When it is not practicable, an entity should retain that remaining balance in accumulated remeasurement gains and losses.*

Presentation

Offset

.155 *A public sector entity should offset an asset relating to one plan against a liability relating to another plan when, and only when, the public sector entity:*

(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

(b) intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.

Components of defined benefit cost

.156 Paragraph PS 3251.139 requires a public sector entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This standard does not specify how a public sector entity would present service cost and net interest on the net defined benefit liability (asset). A public sector entity presents those components in accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

Disclosure

.157 For defined benefit plans, a public sector entity would disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph PS 3251.161);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs PS 3251.162-.166); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the public sector entity's future cash flows (see paragraphs PS 3251.167-.170).

.158 The level of detail disclosed by a public sector entity reflects the highly aggregated nature of the financial statements. In deciding on the level of detail to disclose, public sector entities consider the usefulness of the information to assessing the nature and extent of a public sector entity's employee benefits obligations. Full disclosure is particularly important when the obligations depend heavily on judgment and estimates.

.159 For example, a public sector entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) between amounts owing to active members, deferred members and pensioners.

(b) between vested benefits and accrued but not vested benefits.

(c) between conditional benefits, amounts attributable to future salary increases and other benefits.

.160 A public sector entity would assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, a public sector entity may disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations;

(b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans;

(c) different regulatory environments;

(d) different reporting units; or

(e) different funding arrangements (e.g., wholly unfunded, wholly or partially funded).

Characteristics of defined benefit plans and risks associated with them

.161 *A public sector entity should disclose:*

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).

(ii) a description of the regulatory framework in which the plan operates (e.g., the level of any minimum funding requirements), and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph PS 3251.069).

(iii) a description of any other entity's responsibilities for the governance of the plan (e.g., responsibilities of trustees or of management of the plan).

(b) a description of the risks to which the plan exposes the public sector entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments (e.g., property), the plan may expose the public sector entity to a concentration of property market risk.

(c) a description of any plan amendments, curtailments and settlements.

(d) the basis on which the discount rate has been determined, including:

(i) the plan's funding status for purposes of selecting a discount rate basis and relevant supporting information; and

(ii) the key assumptions and estimates used in assessing a plan's funding status per paragraphs PS 3251.102-.108.

Explanation of amounts in the financial statements

.162 *A public sector entity should provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:*

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets;

(ii) the present value of the defined benefit obligation; and

(iii) the effect of the asset ceiling.

(b) any reimbursement rights. A public sector entity should also describe the relationship between any reimbursement right and the related obligation.

.163 Each reconciliation listed in paragraph PS 3251.162 would show each of the following, if applicable:

(a) current service cost;

(b) interest revenue or expense;

(c) remeasurements of the net defined benefit liability (asset), showing separately:

(i) The return on plan assets, excluding amounts included in interest in (b).

(ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph PS 3251.081(a)).

(iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph PS 3251.081(b)).

(iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). A public sector entity would also disclose how it determined the maximum economic benefit available (i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both).

(d) past service cost and gains and losses arising from settlements. As permitted by paragraph PS 3251.118, past service cost and gains and losses arising from settlements need not be distinguished if they occur together;

(e) contributions to the plan, showing separately those by the employer and by plan participants;

(f) payments from the plan, showing separately the amount paid in respect of any settlements; and

(g) the effects of public sector combinations and disposals.

.164 A public sector entity would disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan assets into those that have a quoted market price in an active market and those that do not. For example, considering the level of disclosure discussed in paragraph PS 3251.157, a public sector entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography, etc.);

(c) debt instruments (segregated by type of issuer, credit quality, geography, etc.);

(d) real estate (segregated by geography, etc.);

(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps, etc.);

(f) investment funds (segregated by type of fund);

(g) asset-backed securities; and

(h) structured debt.

.165 A public sector entity would disclose the fair value of the public sector entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the public sector entity.

.166 A public sector entity would disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph PS 3251.081). Such disclosure would be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When a public sector entity provides disclosures in total for a grouping of plans, it would provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

.167 *A public sector entity should disclose:*

(a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph PS 3251.166) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods; and

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

.168 For fully funded plans applying a discount rate in accordance with paragraph PS 3251.109, a sensitivity analysis would include disclosure of how the defined benefit obligation would have been affected by applying an underfunded plan discount rate, in accordance with paragraph PS 3251.113.

.169 A public sector entity would disclose a description of any asset-liability matching strategies used by the plan or the public sector entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

.170 To provide an indication of the effect of the defined benefit plan on the public sector entity's future cash flows, a public sector entity would disclose:

(a) a description of any funding arrangements and funding policy that affect future contributions;

(b) the expected contributions to the plan for the next reporting period; and

(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

.171 *If a public sector entity participates in a multi-employer defined benefit plan, it should disclose:*

(a) a description of the funding arrangements, including the method used to determine the public sector entity's rate of contributions and any minimum funding requirements;

(b) a description of the extent to which the public sector entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan;

(c) a description of any agreed allocation of a deficit or surplus on:

(i) settlement of the plan; or

(ii) the public sector entity's withdrawal from the plan; and

(d) if the public sector entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph PS 3251.034, it should disclose the following, in addition to the information required by (a)-(c) and instead of the information required by paragraphs PS 3251.161-.170:

(i) the fact that the plan is a defined benefit plan;

(ii) the reason why sufficient information is not available to enable the public sector entity to account for the plan as a defined benefit plan;

(iii) the expected contributions to the plan for the next reporting period;

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the public sector entity; and

(v) an indication of the level of participation of the public sector entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the public sector entity's proportion of the total contributions to the plan or the public sector entity's proportion of the total number of active members, retired members and former members entitled to benefits, if that information is available.

Joint defined benefit plans

.172 *For joint defined benefit plans, in addition to the disclosures required in paragraphs PS 3251.157-.170, a public sector entity should disclose:*

(a) the significant accounting policies for joint defined benefit plans;

(b) a description of the unique nature and terms of any joint defined benefit plans;

(c) the public sector entity's share of the risks and benefits under the plans; and

(d) the total financial status of any joint defined benefit plans.

Defined benefit plans that share risks between public sector entities under common control

.173 *If a public sector entity participates in a defined benefit plan that shares risks between public sector entities under common control, it should disclose:*

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;

(b) the policy for determining the contribution to be paid by the public sector entity;

(c) if the public sector entity accounts for an allocation of the net defined benefit cost as noted in paragraph PS 3251.041, all the information about the plan as a whole required by paragraphs PS 3251.157-.170; and

(d) if the public sector entity accounts for the contribution payable for the period as noted in paragraph PS 3251.041, the information about the plan as a whole required by paragraphs PS 3251.157-.159, PS 3251.161, PS 3251.164-.166 and PS 3251.170(a)-(b).

.174 RELATED PARTY DISCLOSURES, Section PS 2200, contains disclosure requirements that may be relevant for post-employment benefit plans.

.175 CONTINGENT LIABILITIES, Section PS 3300, contains disclosure requirements that may be relevant for post-employment benefit plans.

OTHER LONG-TERM EMPLOYEE BENEFITS

.176 Other long-term employee benefits include items such as the following, if not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service:

(a) long-term paid absences such as long-service leave or sabbatical leave, and accumulating paid sick leave;

(b) other long-service benefits;

(c) long-term disability benefits;

(d) bonuses;

(e) deferred remuneration; and

(f) compensation payable by the public sector entity until an individual enters new employment.

.177 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, a simplified method of accounting for other long-term employee benefits is required. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in net assets.

.178 There is a rebuttable presumption that other long-term employee benefits are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the public sector entity considers whether some or all other long-term employee benefits should be accounted for in accordance with paragraphs PS 3251.059-.175.

Recognition and measurement

.179 *In recognizing and measuring the surplus or deficit in an other long-term employee benefit plan, a public sector entity should apply paragraphs PS 3251.060-.116 and PS 3251.132-.134.*

.180 *A public sector entity should apply paragraphs PS 3251.135-.138 in recognizing and measuring any reimbursement right.*

.181 *For other long-term employee benefits, a public sector entity should recognize the net total of the following amounts in surplus or deficit, except to the extent they are recognized within the cost of assets or liabilities under TANGIBLE CAPITAL ASSETS, Section PS 3150, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, or ASSET RETIREMENT OBLIGATIONS, Section PS 3280:*

(a) service cost (see paragraphs PS 3251.071-.131 and paragraph PS 3251.142);

(b) net interest on the net defined benefit liability (asset) (see paragraphs PS 3251.143-.148); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 3251.149-.152).

.182 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

Disclosure

.183 Although this standard does not require specific disclosures about other long-term employee benefits, financial statements would disclose information similar to:

(a) disclosures required for short-term employee benefits (paragraphs PS 3251.024-.025);

(b) defined contribution plans (paragraphs PS 3251.055-.058); and

(c) defined benefit plans (paragraphs PS 3251.157-.175).

Some required disclosures will be irrelevant for some forms of other long-term benefits. Professional judgment will be necessary to determine what disclosures may be required for other long-term employee benefits.

.184 Public sector entities are encouraged to disclose:

(a) a general description of the other long-term employee benefits;

(b) information about key assumptions;

(c) a reconciliation of assets and liabilities from the beginning of a fiscal period to the end of a fiscal period; and

(d) the expense for the period.

TERMINATION BENEFITS

.185 Termination benefits are considered separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either a public sector entity's decision to terminate the employment or an employee's decision to accept a public sector entity's offer of benefits in exchange for termination of employment.

.186 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without a public sector entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some public sector entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the public sector entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the public sector entity is a termination benefit.

.187 The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump-sum payments, but sometimes also include:

(a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly; or

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the public sector entity.

.188 For example, indicators that an employee benefit is provided in exchange for services, and would not be a termination benefit, include the following:

(a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided); or

(b) the benefit is provided in accordance with the terms of an employee benefit plan.

.189 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the public sector entity's past practice of providing similar benefits. As another example, if a public sector entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the public sector entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from a public sector entity's decision to terminate an employee's employment and are not conditional on future service being provided.

.190 Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Such benefits are post-employment benefits rather than termination benefits, and a public sector entity accounts for them as post-employment benefits.

Recognition

.191 *A public sector entity should recognize a liability and expense for termination benefits when the public sector entity can no longer withdraw the offer of those benefits.*

.192 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when a public sector entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer; and

(b) when a restriction (e.g., a legal, regulatory or contractual requirement or other restriction) on the public sector entity's ability to withdraw the offer takes effect. This would be when the offer is made if the restriction existed at the time of the offer.

.193 For termination benefits payable as a result of a public sector entity's decision to terminate an employee's employment, the public sector entity can no longer withdraw the offer when the public sector entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

(b) the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and

(c) the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

.194 When a public sector entity recognizes termination benefits, the public sector entity may also have to account for past service costs resulting from a plan amendment or a curtailment of other employee benefits (see paragraph PS 3251.122).

Measurement

.195 *A public sector entity should measure termination benefits on initial recognition, and should measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the public sector entity should apply the requirements for post-employment benefits. Otherwise:*

(a) If the termination benefits are expected to be settled within 12 months after the end of the reporting period in which the termination benefit is recognized, the public sector entity should apply the requirements for short-term employee benefits.

(b) If the termination benefits are not expected to be settled within 12 months after the end of the reporting period, the public sector entity should apply the requirements for other long-term employee benefits.

.196 Because termination benefits are not provided in exchange for service, paragraphs PS 3251.075-.079 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

.197 Although this standard does not require specific disclosures about termination benefits, financial statements would disclose information similar to:

(a) disclosures required for short-term employee benefits (paragraphs PS 3251.024-.025);

(b) defined contribution plans (paragraphs PS3251.055-.058); and

(c) defined benefit plans (paragraphs PS 3251.157-.175).

Some required disclosures will not be relevant for some forms of termination benefits. Professional judgment will be necessary to determine what disclosures may be required for termination benefits.

.198 Public sector entities are encouraged to disclose:

(a) a general description of the termination benefits;

(b) information about key assumptions;

(c) a reconciliation of assets and liabilities from the beginning of a fiscal period to the end of a fiscal period; and

(d) the expense for the period.

The reconciliation of assets and liabilities would specifically identify the effects of termination benefits. Similarly, the expense for the period would specifically identify the amount due to termination benefits.

TRANSITIONAL PROVISIONS

.199 This Section applies to fiscal years beginning on or after April 1, 2029. Earlier adoption is encouraged.

.200 This Section may be applied retroactively, with or without prior period restatement.[7] A description of retroactive application is provided in ACCOUNTING CHANGES, Section PS 2120, except that:

(a) a public sector entity need not adjust the carrying amount of assets outside the scope of this Section for changes in employee benefit costs that were included in the carrying amount before the beginning of the earliest prior period presented in the first financial statements in which the public sector entity adopts this Section.

(b) a public sector entity need not adjust the fair value of plan assets for any amounts excluded in accordance with paragraph PS 3251.133 that were included in the fair value of plan assets before the beginning of the earliest period presented in the first financial statements in which the public sector entity adopts this Section.

(c) in financial statements for periods beginning before April 1, 2029, a public sector entity need not present comparative information for the disclosures required by paragraph PS 3251.167 about the sensitivity analysis for the defined benefit obligation.

GLOSSARY

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions.

An **actuarial valuation for accounting purposes** is an assessment of a benefit plan's financial status. It consists of the valuation of assets held by the plan and calculation of the actuarial present value of benefits to be paid under the plan. The valuation provides the information needed to determine the defined benefit obligation and related expenses in accordance with this Section.

An **actuarial valuation for funding purposes** is an assessment of a benefit plan's financial status. It consists of the valuation of assets held to discharge the defined benefit obligation and the calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and a determination of any gains and losses since the last valuation. An actuarial valuation for funding purposes is used to assess a plan's funding status in accordance with paragraphs PS 3251.102-.108.

The **asset ceiling** is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the public sector entity) that:

(a) are held by an entity (a fund) that is legally separate from the public sector entity and exists solely to pay or fund employee benefits; and

(b) are available to be used only to pay or fund employee benefits, are not available to the public sector entity's own creditors (even in bankruptcy), and cannot be returned to the public sector entity, unless either:

  (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the public sector entity; or

  (ii) the assets are returned to the public sector entity to reimburse it for employee benefits already paid.

7 Where the total cumulative effect of a change in an accounting policy on prior periods can be determined and the effect with respect to specific prior periods can be reasonably determinable, the Section is applied retroactively with prior period restatement. For further guidance, refer to ACCOUNTING CHANGES, paragraphs Section PS 2120, paragraphs.14-.15.

The **deficit or surplus** is:

(a) the present value of the defined benefit obligation less

(b) the fair value of plan assets (if any).

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which a public sector entity pays fixed contributions into a separate entity (a fund) and will have no legal obligation or liability resulting from a constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Employee benefits are all forms of consideration given by a public sector entity in exchange for service rendered by employees or for the termination of employment.

Fully funded plans are defined benefit plans where sufficient assets have been set aside to fulfill post-employment obligations to current plan members and their beneficiaries.

A **joint defined benefit plan** is a contractual agreement between the public sector entity and other parties representing plan participants that has all of the following characteristics:

(a) co-operation toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the public sector entity and the plan members, or the representatives thereof;

(c) the public sector entity and representatives for plan members share control of decisions related to the administration of the post-employment benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the post-employment benefit plan are shared on an equitable basis between the public sector entity and the plan members, or the representatives thereof.

The contractual arrangement establishes that the parties have shared control over the post-employment benefit plan and ensures that neither party is in a position to control the plan unilaterally. Overall, there must be an equitable relationship among:

(a) the funding by the public sector entity of the post-employment benefit plan;

(b) the extent of control it is able to exercise over the plan; and

(c) the risks and benefits that accrue to the public sector entity from the plan.

Multi-employer plans are defined contribution plans or defined benefit plans that:

(a) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity.

The **net defined benefit liability (asset)** is the cumulative plan deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Plan assets comprise:

(a) **assets held by a long-term employee benefit fund**; and

(b) qualifying insurance policies.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a public sector entity provides post-employment benefits for one or more employees.

The **present value of a defined benefit obligation** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A **qualifying insurance policy** is an insurance policy issued by an insurer that is not a related party (as defined in RELATED PARTY DISCLOSURES, Section PS 2200) of the public sector entity, if the proceeds of the policy:

(a) can be used only to pay or fund employee benefits under a defined benefit plan; and

(b) are not available to the public sector entity's own creditors (even in bankruptcy) and cannot be paid to the public sector, unless either:

  (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

  (ii) the proceeds are returned to the public sector entity to reimburse it for employee benefits already paid.

The **return on plan assets** is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

(a) any costs of managing the plan assets; and

(b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Service cost comprises:

(a) current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

(b) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the public sector entity in the number of employees covered by a plan); and

(c) any gain or loss on settlement.

A **settlement** is a transaction that eliminates all further legal obligations or liabilities resulting from constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

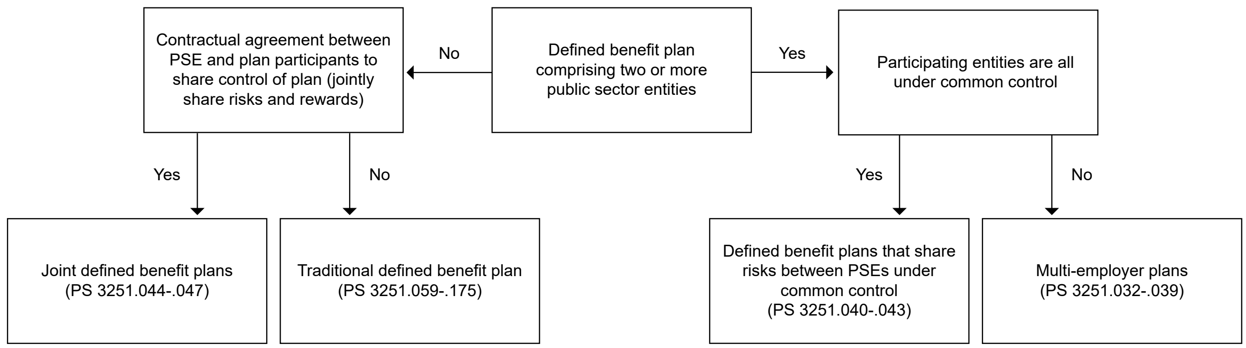
(a) a public sector entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Underfunded plans are defined benefit plans where insufficient plan assets have been set aside to fulfill post-employment benefit obligations to current plan members and their beneficiaries.

APPENDIX A: DECISION TREE – CLASSIFYING DEFINED BENEFIT PLANS

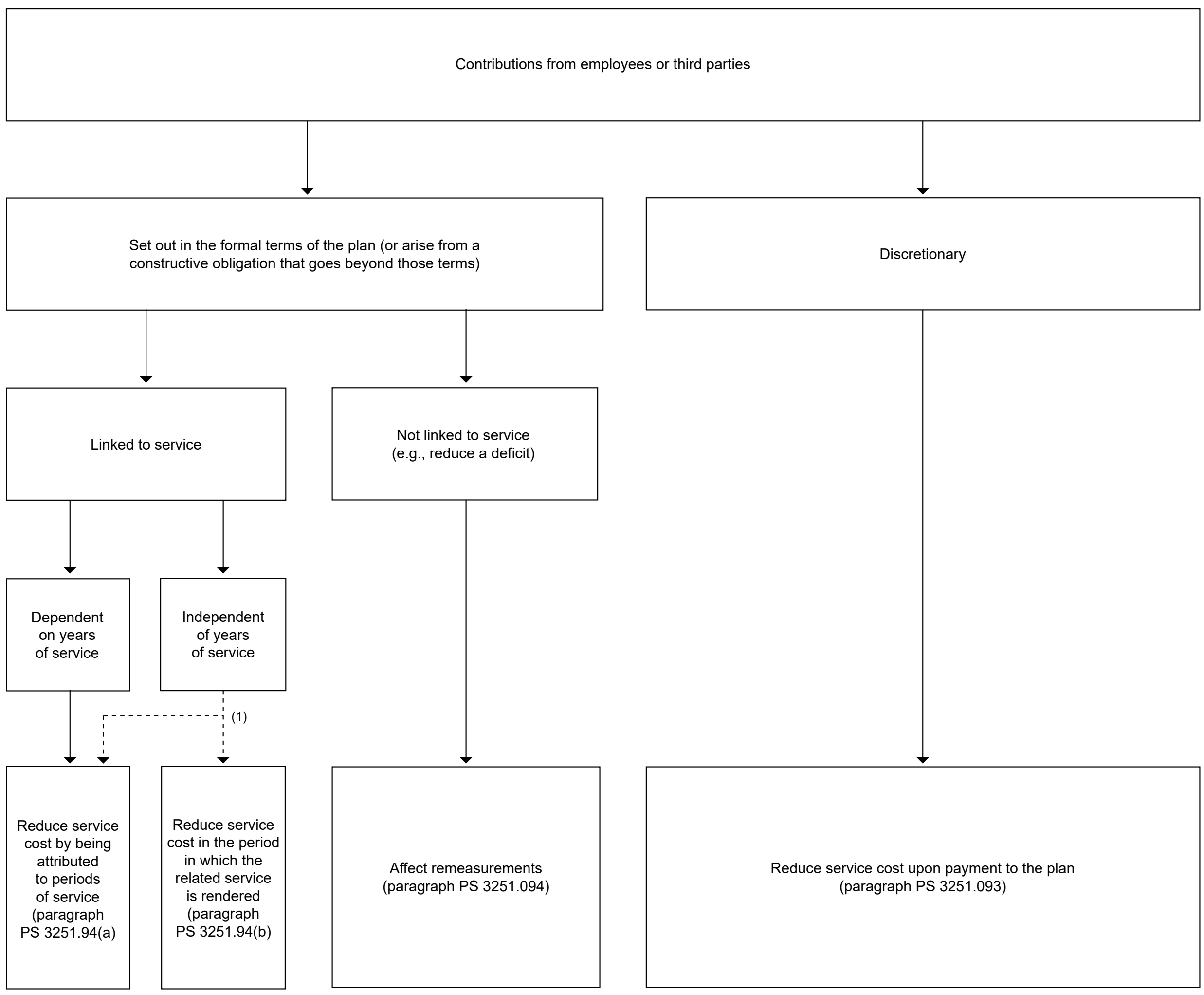
Although illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



APPENDIX B: DECISION TREE – CONTRIBUTIONS FROM EMPLOYEES OR THIRD PARTIES

Although illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

The accounting requirements for contributions from employees or third parties are illustrated in the decision tree below.

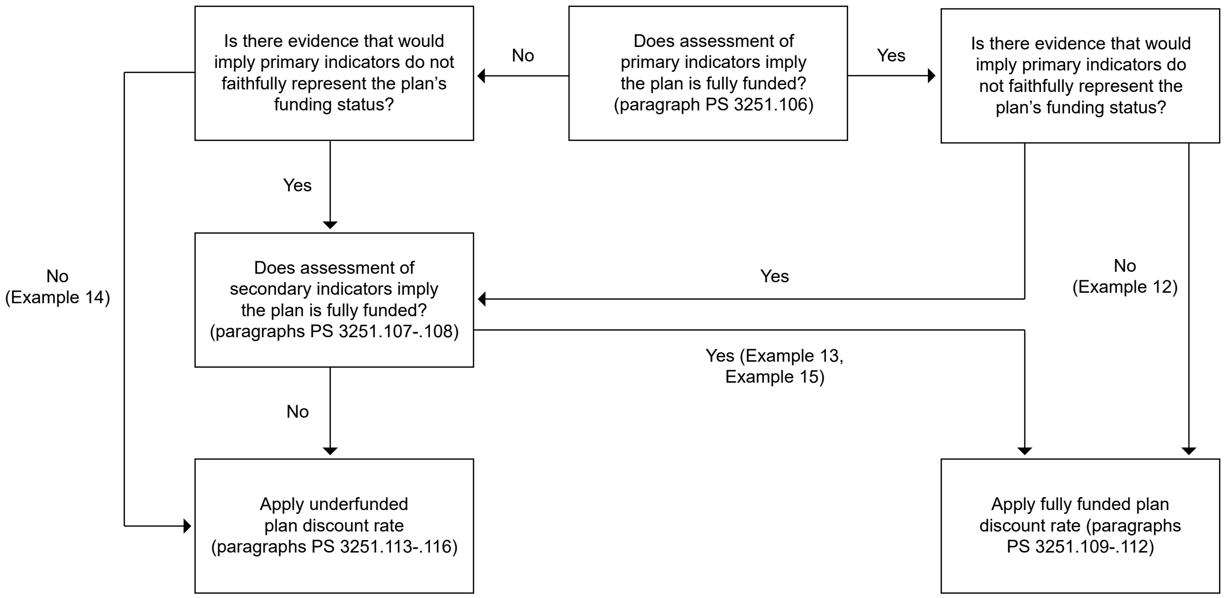


(1) This dotted arrow means that a public sector entity is permitted to choose either accounting.

APPENDIX C: DECISION TREE – FUNDING STATUS ASSESSMENT

Although illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

The accounting requirements for assessing the funding status of a defined benefit plan are illustrated in the decision tree below.



APPENDIX D: ILLUSTRATIVE EXAMPLES

This material is illustrative only. Matters of principle relating to particular situations should be decided in the context of the Section and the related application guidance. Although illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

The examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

TABLE OF CONTENTS **Paragraph**

Termination benefits

ACCOUNTING FOR A MULTI-EMPLOYER PLAN (PARAGRAPH PS 3251.036)

Example 1

IE.01 Local Government Unit A participates in a multi-employer defined benefit plan. Based on presently available information, Local Government Unit A determines that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual local government units participating in the plan, on the basis that the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan.

IE.02 Local Government Unit A recognizes a liability for the contributions in its financial statements.

PROJECTED UNIT CREDIT METHOD (PARAGRAPH PS 3251.072)

Example 2

IE.03 A lump-sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in Year 1 is $10,000 and is assumed to increase at 7 per cent (compound) each year. The discount rate used is 10 per cent per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of Year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the public sector entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– prior years	0	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131
– current and prior years	131	262	393	524	655
Year	*1*	*2*	*3*	*4*	*5*
Opening obligation	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655

Notes:

1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year.
3. The closing obligation is the present value of benefit attributed to current and prior years.

ATTRIBUTING BENEFIT TO YEARS OF SERVICE (PARAGRAPH PS 3251.076)

Example 3

IE.04 A defined benefit plan provides a lump-sum benefit of $100 payable on retirement for each year of service.

IE.05 A benefit of $100 is attributed to each year. The current service cost is the present value of $100. The present value of the defined benefit obligation is the present value of $100, multiplied by the number of years of service up to the end of the reporting period.

IE.06 If the benefit is payable immediately when the employee leaves the public sector entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

Example 4

IE.07 A plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65.

IE.08 A benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 per cent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

VESTING AND NON-VESTING BENEFITS (PARAGRAPH PS 3251.077)

Example 5

IE.09 A plan pays a benefit of $100 for each year of service. The benefits vest after 10 years of service.

IE.10 A benefit of $100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

Example 6

IE.11 A plan pays a benefit of $100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

IE.12 No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of $100 is attributed to each subsequent year.

ATTRIBUTING BENEFITS TO ACCOUNTING PERIODS (PARAGRAPHS PS 3251.078-.079)

Example 7

IE.13 A plan pays a lump-sum benefit of $1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

IE.14 A benefit of $100 ($1,000 ÷ 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

Example 8

IE.15 A plan pays a lump-sum retirement benefit of $2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

IE.16 For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the public sector entity attributes benefit of $100 ($2,000 ÷ 20) to each year from the age of 35 to the age of 55.

IE.17 For employees who join between the ages of 35 and 45, service beyond 20 years will lead to no material amount of further benefits. For these employees, the public sector entity attributes benefit of $100 ($2,000 ÷ 20) to each of the first 20 years.

IE.18 For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the public sector entity attributes benefit of $200 ($2,000 ÷ 10) to each of the first 10 years.

IE.19 For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

Example 9

IE.20 A post-employment medical plan reimburses 40 per cent of an employee’s post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50 per cent of those costs if the employee leaves after 20 or more years of service.

IE.21 Under the plan’s benefit formula, the public sector entity attributes 4 per cent of the present value of the expected medical costs (40% ÷ 10) to each of the first 10 years and 1 per cent (10% ÷ 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

Example 10

IE.22 A post-employment medical plan reimburses 10 per cent of an employee’s post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50 per cent of those costs if the employee leaves after 20 or more years of service.

IE.23 Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the public sector entity attributes benefit on a straight-line basis under paragraph PS 3251.078. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5 per cent of the present value of the expected medical costs (50% ÷ 20).

IE.24 For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1 per cent of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving. For employees expected to leave within 10 years, no benefit is attributed.

Example 11

IE.25 Employees are entitled to a benefit of 3 per cent of final salary for each year of service before the age of 55.

IE.26 Benefit of 3 per cent of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

DETERMINING THE FUNDING STATUS FOR A DEFINED BENEFIT PLAN (PARAGRAPHS PS 3251.102-.108)

Example 12 – Fully funded status based on primary indicators

IE.27 A public sector entity has a defined benefit pension plan (Plan A) with a formal funding policy to remediate any shortfall between the plan's liabilities and assets. The plan's funding policy requires the regular preparation of an actuarial valuation for funding purposes to calculate future contributions required to discharge the plan's defined benefit obligation. These valuations are to be filed with a provincial regulatory body at least every three years.

IE.28 In assessing the funding status for the plan, the following primary indicators were considered:

(a) The plan's funding policy – The plan's funding policy includes a formal objective to sustain sufficient assets to satisfy the plan's obligations to current plan members and their beneficiaries. The public sector entity is responsible for the risks related to the plan's funding and for any costs associated with remediating shortfalls in the sufficiency of the plan's assets to fulfill its post-employment benefit obligations.

(b) The plan's actuarial valuation for funding purposes – An actuarial valuation for funding purposes was most recently filed with its regulatory body two years ago, with reported going concern actuarial assets of $200 million and liabilities of $190 million. Management determines that the results of the most recently filed actuarial valuation for funding purposes indicates that sufficient plan assets have been set aside to fulfill post-employment obligations as they fall due.

IE.29 Management determined that the identified primary indicators faithfully represent the plan's funding status at the reporting date. Accordingly, secondary indicators were not required in its assessment. Based on the assessment of primary indicators, management determines that the plan is fully funded, and would apply a discount rate in accordance with paragraph PS 3251.109.

Example 13 – Fully funded status based on secondary indicators – events subsequent to most recently filed actuarial valuation for funding purposes

IE.30 A public sector entity has a defined benefit pension plan (Plan B) with a formal funding policy to remediate any shortfall between the plan's liabilities and assets. The plan's funding policy requires the regular preparation of an actuarial valuation for funding purposes to calculate future contributions required to discharge the plan's defined benefit obligation. These valuations are to be filed with a provincial regulatory body at least every three years.

IE.31 In assessing the funding status for the plan, the public sector entity considered the following primary indicators:

(a) The plan's funding policy – The plan's funding policy includes a formal objective to sustain sufficient assets to satisfy the obligations of the plan to current plan members and their beneficiaries. The public sector entity is responsible for the risks related to the plan's funding and for any costs associated with remediating shortfalls in the sufficiency of the plan's assets to fulfill its post-employment benefit obligations.

(b) The plan's actuarial valuation for funding purposes – An actuarial valuation for funding purposes was most recently filed with its regulatory body one year ago, with reported going concern actuarial assets of $180 million and liabilities of $177 million. Subsequent to the filing of actuarial valuation, the market value of plan assets declined to $175 million. Therefore, management determined that the primary indicators did not faithfully represent the plan's funding status as of the financial reporting date.

IE.32 In order to assess the plan's funding status, management considered additional secondary indicators, in accordance with paragraph PS 3251.107:

(a) Corrective actions – The plan has a formal funding policy that includes automatic triggers to increase contributions when the plan's funded ratio falls below 95 per cent. Although management noted a decrease in the market value of plan assets for the current financial year, a roll-forward analysis of the plan's actuarial valuation for funding purposes indicates that increased contributions are not required, with an estimated funded ratio of 97 per cent.

(b) Accuracy in assessing historical fluctuations – Management asserts that the decline in the market value of plan assets is consistent with temporary cyclical market volatility, rather than indicative of a long-term funding deficiency in the plan's funding. A review of historical data showed similar short-term declines supported management's assessment that short-term market volatility did not indicate long-term underfunding for the plan.

(c) Historical actions – The plan has been fully funded on all prior funding status assessments performed. Accordingly, there is no evidence suggesting that the plan has been historically underfunded.

IE.33 After considering secondary funding indicators, the public sector entity concluded that there was sufficient evidence to determine that the plan is fully funded and would apply a discount rate in accordance with Section PS 3251.109.

Example 14 – Underfunded status based on primary indicators

IE.34 A public sector entity has a defined benefit pension plan (Plan C) with formal funding policy to remediate any shortfall between the plan's liabilities and assets. The plan's funding policy requires the regular preparation of an actuarial valuation for funding purposes to calculate future contributions required to discharge the plan's defined benefit obligation. These valuations are to be filed with a provincial regulatory body at least every three years.

In assessing the funding status for the plan, the following primary indicators were considered:

(a) The plan's funding policy – The plan's funding policy includes a formal objective to sustain sufficient assets to satisfy the obligations of the plan to current plan members and their beneficiaries. The public sector entity is responsible for the risks related to the plan's funding and for any costs associated with remediating shortfalls in the sufficiency of the plan's assets to fulfill its post-employment benefit obligations.

(b) The plan's actuarial valuation for funding purposes – A funding valuation for the plan was most recently filed two years ago, with reported going concern actuarial assets of $125 million and liabilities of $133 million. Management determines that the results of the most recently filed actuarial valuation for funding purposes indicates that there are insufficient assets to satisfy existing liabilities.

IE.35 Management did not identify any additional factors that implied the primary indicators considered did not faithfully represent the plan's funding status at the reporting date and, therefore, would not require further consideration of secondary indicators in its assessment of funding status. Accordingly, based on the assessment of primary indicators, management determines that the plan is underfunded, and would apply a discount rate in accordance with Section PS 3251.113.

Example 15 – Fully funded based on secondary indicators – insufficient evidence from primary indicators

IE.36 A public sector entity has a defined benefit pension plan (Plan D) with a formal funding policy to remediate any shortfall between the plan's liabilities and assets. The plan's funding policy requires the regular preparation of an actuarial valuation for funding purposes to calculate future contributions required to discharge the plan's defined benefit obligation. These valuations are to be filed with a provincial regulatory body at least every three years.

IE.37 In assessing the funding status for the plan, the public sector entity considered the following primary indicators:

(a) The plan's funding policy – The plan's funding policy includes a formal objective to sustain sufficient assets to satisfy the plan's obligations to current plan members and their beneficiaries. The public sector entity is responsible for the risks related to the plan's funding and for any costs associated with remediating shortfalls in the sufficiency of the plan's assets to fulfill its post-employment benefit obligations.

(b) The plan's actuarial valuation for funding purposes – An actuarial valuation for funding purposes was most recently filed with its regulatory body two years ago, with reported going concern actuarial assets of $125 million and liabilities of $133 million.

IE.38 In order to assess the funding status of the plan, management considered additional secondary indicators, in accordance with Section PS 3251.107:

(a) Corrective actions – The plan has a formal funding policy that includes automatic triggers to increase contributions when the plan's funded ratio falls below 95 per cent on a going concern basis. The most recently filed actuarial valuation for funding purposes indicated a funded ratio on a going concern basis of 94 per cent. To resolve the funding shortfall in the most recently filed actuarial valuation for funding purposes, the plan has increased its required annual contributions from participating employees by a total of $1 million, in alignment with the plan's funding policy and its jurisdictional regulatory requirements.

(b) Accuracy in assessing historical fluctuations – A prior year review of actuarial assumptions identified an increase in life expectancy for plan participants, expected to increase the plan's liability. The plan increased contributions accordingly to address the impact of increased life expectancy on the plan's actuarial liability.

(c) Historical actions – The plan has been fully funded on all prior funding status assessments performed. Accordingly, there is no evidence suggesting that the plan has been historically underfunded.

IE.39 After consideration of secondary funding indicators, the public sector entity concluded that there was sufficient persuasive evidence to determine that the plan is fully funded and the entity would apply a discount rate in accordance with paragraph PS 3251.109.

TERMINATION BENEFITS (PARAGRAPHS PS 3251.185-.196)

Example 16

Background

IE.40 As a result of a recent acquisition, a public sector entity plans to close an organization in 10 months and, at that time, terminate the employment of all the remaining employees at the organization. Because the public sector entity needs the employees' expertise to complete some contracts, it announces a plan of termination as follows.

IE.41 Each employee who stays and renders service until the closure of the organization will receive on the termination date a cash payment of $30,000. Each employee leaving before closure of the organization will receive $10,000.

IE.42 There are 120 employees at the organization. When it announces the plan, the public sector entity expects 20 of them to leave before closure. Therefore, the total expected cash outflow under the plan is $3,200,000 (i.e., 20 × $10,000 + 100 × $30,000). The public sector entity accounts for benefits provided for termination of employment as termination benefits, as required by paragraph PS 3251.186, and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

IE.43 The benefit provided for termination of employment is $10,000. This is the amount that the public sector entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the organization or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the public sector entity's decision to close the organization and terminate their employment (i.e., all employees will leave employment when the organization closes). Therefore, the public sector entity recognizes a liability of $1,200,000 (i.e., 120 × $10,000) for the termination benefits provided in accordance with the employee benefit plan when the plan of termination has been communicated to the affected employees.

Benefits provided for service

IE.44 The incremental benefits that employees will receive if they provide services for the full 10-month period are for services provided over that period. The public sector entity accounts for them as short-term employee benefits because the public sector entity expects to settle them before 12 months after the end of the reporting period. In this example, discounting is not required, so an expense of $200,000 (i.e., $2,000,000 ÷ 10) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

CONSEQUENTIAL AMENDMENTS

The CPA Canada PSA Handbook would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

RETIREMENT BENEFITS Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255

Section PS 3250 and Section PS 3255 would be withdrawn from the PSA Handbook and replaced with proposed EMPLOYEE BENEFITS, Section PS 3251.

Amending references to Section PS 3250 and Section PS 3255

As a result of withdrawing Section PS 3250 and Section PS 3255, references to these Sections will be replaced with specific paragraph references or general references to the proposed Section PS 3251 in the following Sections:

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING IN THE PUBLIC SECTOR

9.34 Various measurement techniques may be used for estimation of a measurement attribute; measurement techniques are not measurement attributes. Examples of measurement techniques include present value, statistical modelling, and option pricing models:

(a) Present value is the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. This technique may be used, for example, to estimate the cost of ~~retirement~~ employee benefits, when calculating asset retirement obligations, or when determining the grant portion of concessionary loans and portfolio investments.

(b) Statistical modelling may be an appropriate valuation technique to use when multiple input sources, including economic data, and assumptions are required to estimate an amount. For example, statistical modelling may be used to estimate tax receivables.

(c) Option pricing models may be one way to measure derivatives containing an option for which no active market exists.

FINANCIAL STATEMENT PRESENTATION, Section PS 1202

Financial liabilities

…

Presentation

…

.094 Recognition, measurement and additional presentation requirements for an entity's financial liabilities related to:

(a) Employee ~~future~~ benefits are outlined in ~~RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255;~~ EMPLOYEE BENEFITS, Section PS 3251; …

LONG-TERM DEBT, Section PS 3230

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report long-term debt in government financial statements,[1] including debt issued on behalf of a government business enterprise. It does not address the presentation and disclosure of other long-term obligations of a government. General guidance regarding the presentation and disclosure of a government's financial and non-financial liabilities is provided in FINANCIAL STATEMENT PRESENTATION, paragraphs PS 1202.083-.108. Employee benefits ~~Retirement benefits~~ are specifically dealt with in EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255~~.

RESTRUCTURING TRANSACTIONS, Section PS 3430

Restructuring-related costs and events

…

.32 Restructuring-related costs would be recognized as an expense when incurred in accordance with individual Sections of the PSA Handbook. Restructuring is not an event that can justify a delay or an advance in recognition of these costs as expenses. For example, termination benefits would be recognized as an expense in accordance with guidance in EMPLOYEE BENEFITS, paragraph PS 3251.191~~POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, paragraph 3255.28~~.

…

.34 Restructuring may trigger a curtailment of a transferor's post-employment ~~retirement~~ benefit plans due to reduction of a significant number of employees. A transferor may decide to partially settle its obligation under a post-employment ~~retirement~~ benefit plan as a result of restructuring. Gain or loss on plan curtailment or settlement would be recognized in accordance with EMPLOYEE BENEFITS, Section PS 3251.129 ~~RETIREMENT BENEFITS, Section PS 3250~~.

FINANCIAL INSTRUMENTS, Section PS 3450

PURPOSE AND SCOPE

…

.003 This Section does not apply to:

…

(f) employer's rights and obligations for employee ~~future~~ benefits that are accounted for in accordance with EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255~~;

INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

Section	General applicability	Applies to GNFPOs with relevant transactions or circumstances	Limited or no applicability to GNFPOs
~~PS 3250, RETIREMENT BENEFITS~~ PS 3251, EMPLOYEE BENEFITS		X	
~~PS 3255, POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS~~	-	~~X~~	-

FIRST-TIME ADOPTION, Section PS 2125

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…

Exemptions

.08 A government organization may elect to use one or more of the following exemptions:

(a) ~~retirement and post-employment~~ employee benefits;

(b) business combinations;

(c) investments in government business enterprises;

(d) business partnerships; and

(e) tangible capital asset impairment.

A government organization should not apply these exemptions by analogy to any other items. [~~JAN. 2011~~ APRIL 2029]

Employee ~~Retirement and post-employment~~ benefits

.09 Under EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250, for defined benefit plans, and under POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255~~, net defined benefit liabilities (assets) and liabilities for other long-term employee benefits ~~accrued benefit obligations, post-employment benefits and compensated absences~~ are determined by a government organization by applying a discount rate with reference to the plan's funding status ~~its plan asset earnings or with reference to its cost of borrowing~~. Retroactive application of Section PS 3251 ~~these Sections~~ requires a government organization to recalculate net defined benefit liabilities (assets) and liabilities for other long-term employee benefits ~~accrued benefit obligations, post-employment benefits and compensated absences~~ at the time of transition to Public Sector Accounting Standards. However, a first-time adopter may elect to delay application of Section PS 3251 ~~these Sections~~ relative to the discount rate used until the date of their next actuarial valuation or within three years of the transition date to Public Sector Accounting Standards, whichever is sooner. If a first-time adopter uses this election, it shall apply it to all plans.

~~.10 Under RETIREMENT BENEFITS, Section PS 3250, for defined benefit plans, and under POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255, a government organization amortizes actuarial gains and losses to the liability or asset, and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group. Retroactive application of this approach requires a government organization to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to Public Sector Accounting Standards into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses as the date of transition to Public Sector Accounting Standards directly in accumulated surplus / deficit. Actuarial gains and losses after the date of transition to Public Sector Accounting Standards are to be accounted for in accordance with Sections PS 3250 and PS 3255. If a first-time adopter uses this election, it shall apply it to all plans.~~

BASIS FOR CONCLUSIONS

TABLE OF CONTENTS **Paragraph**

Introduction

BC.01 This Basis for Conclusions is a supporting document to the PSAB Re-exposure Draft, "Employee Benefits, Proposed Section PS 3251." It summarizes the Board's considerations in reaching its conclusions.

BC.02 This Basis for Conclusions is non-authoritative guidance issued by PSAB.

BC.03 Prior to approving a final standard, PSAB will review and deliberate responses to the Re-exposure Draft.

Background

BC.04 In 2014, PSAB approved the Employee Benefits project.

BC.05 The project's objective was to review and amend, if necessary:

(a) RETIREMENT BENEFITS, Section PS 3250; and

(b) POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

BC.06 From 2016 to 2018, PSAB issued three Invitation to Comment documents on the project's most contentious issues:

(a) deferral provisions;

(b) discount rate guidance; and

(c) non-traditional pension plans.

BC.07 In July 2021, PSAB issued the Exposure Draft, "Employee Benefits, Proposed Section PS 3251." In line with the revised Employee Benefits project plan, the Exposure Draft represented the first phase of the Employee Benefits project. It provided core guidance for employee benefits, focusing on updating the guidance for deferral provisions and discount rate guidance. The core guidance from the first phase of the project would be a starting point for developing guidance for non-traditional pension plans in a future phase.

BC.08 As explained in PSAB's June 2020 In Brief – A plain and simple overview of PSAB's 2020 decision to adapt IPSAS principles, when developing future standards, all existing projects underway were grandfathered and would be completed according to their existing project charters. As part of its revised Employee Benefits project plan, the Board considered alternative approaches to completing the project. The Board decided that using IPSAS 39 principles as the starting point for the project represented the best approach to timely standard development.

BC.09 Proposed Section PS 3251 uses the principles from IPSAS 39 as a starting point. In developing the Section, PSAB amended IPSAS 39 principles that were considered contrary to the Board's Conceptual Framework for Financial Reporting in the Public Sector, or inappropriate for application in Canada based on the Canadian public interest. Further changes have been made to respond to comments received on the July 2021 Exposure Draft to clarify or simplify principles or to provide requested guidance.

BC.10 This Basis for Conclusions focuses on where PSAB amended IPSAS 39 principles and provides the rationale for those amendments. Comments from the Board's Invitations to Comment were considered in assessing the need to amend the IPSAS 39 principles. Changes from the July 2021 Exposure Draft principles are also highlighted and explained.

BC.11 Since PSAB issued Section PS 3250 and Section PS 3255, in 2001 and 2002, respectively, new types of pension plans have been introduced. There also have been developments in the related accounting concepts.

BC.12 For example, financial crises, historically low interest rates, aging plan members and increasing longevity have led to pension reform in some jurisdictions, with some employers moving away from traditional defined benefit plans to share more risk with plan members. New shared-risk plans may contain features such as a contribution ceiling, target benefits, contingent benefits and contingent contributions that depend on the plan's actuarial funding status. The accounting implications of such features were not specifically considered when developing Sections PS 3250 and PS 3255 nor in the first phase of the proposed Section PS 3251. PSAB will consider the accounting implications of such features in a future phase of the Employee Benefits project.

Using IPSAS 39 principles

BC.13 When revising the Employee Benefits project plan, PSAB determined that using IPSAS 39 principles to develop proposed Section PS 3251 was the best approach to provide a high-quality solution to interested and affected parties in a timely manner.

BC.14 IPSAS 39 replaced IPSAS 25 on January 1, 2018. The International Public Sector Accounting Standards Board (IPSASB) noted on its Employee Benefits project page that this limited-scope project was part of the IPSASB's strategy to maintain its existing standards. IPSAS 39 reflects amendments the International Accounting Standards Board (IASB) made to its equivalent standard, International Accounting Standard (IAS) 19, *Employee Benefits*, up to December 2015. The version of IPSAS 39 used to develop proposed Section PS 3251 includes amendments resulting from IPSAS guidance issued up to May 2022.

Re-exposure of discount rate proposals

BC.15 As part of its deliberations, PSAB considered whether amendments made to the July 2021 Exposure Draft proposals would require re-exposure prior to finalization of the proposed Section. Where the proposals of a draft standard have been significantly changed subsequent to the issuance of an exposure draft, PSAB's due process requires re-exposure unless the Board decides, by formal vote, not to re-expose for one or more reasons.

BC.16 After carefully considering the feedback from interested and affected parties, and the significance of resulting proposed amendments to the July 2021 Exposure Draft, PSAB determined that a limited re-exposure of the proposed Section was required. The Board's decision was primarily driven by the substantive nature of proposed amendments to authoritative guidance for the determination of discount rate in the measurement of defined benefit pension obligations (proposed paragraphs PS 3251.100-.116).

BC.17 Discount rate is a key actuarial assumption in the measurement of a defined benefit obligation, and changes to its determination may significantly affect the liability reported by public sector entities. PSAB acknowledged that amendments to the proposed Section's discount rate proposals significantly change the methodology for assessing the funding status of a defined benefit plan from what was proposed in the July 2021 Exposure Draft. The Board determined that the proposed amendments to discount rate guidance may result in a significant impact to public sector entities that participate in defined benefit plans. Therefore, the Board decided that amendments to discount rate proposals warranted limited re-exposure to obtain additional input and to ensure the implications are communicated to and sufficiently understood by interested and affected parties.

BC.18 For other areas of proposed Section PS 3251, PSAB concluded that amendments were not substantive in nature and, therefore, would not require re-exposure. Amendments to other areas of the proposed Section were deemed to provide clarification in response to feedback but did not substantively alter the proposed Section's principles or its application. Accordingly, the Re-exposure Draft proposes to finalize non-substantive amendments, contingent on identifying any further amendments resulting from the limited re-exposure of proposed amendments discount rate principles. The limited re-exposure process is intended to ensure that authoritative proposals regarding the determination of discount rate for defined benefit plans are responsive to the July 2021 Exposure Draft feedback, garnering any new information the Board needs to finalize the discount rate requirements for inclusion in the final standard.

Principles of EMPLOYEE BENEFITS, Section PS 3251

Developments since issuing Sections PS 3250 and PS 3255

BC.19 Since PSAB issued Section PS 3250 and Section PS 3255 in 2001 and 2002 respectively, significant developments have been made in pension accounting. In 2008, the IPSASB issued IPSAS 25, *Employee Benefits*, In 2018, the IPSASB issued IPSAS 39, *Employee Benefits*, to reflect amendments the IASB made to its equivalent standard, IAS 19 *Employee Benefits*. The issuance of these standards has resulted in widespread review and adoption of revised pension accounting concepts by national public sector accounting standard setters.

BC.20 IPSAS 25 and IPSAS 39 introduced significant changes in accounting guidance, including:

(a) requiring the immediate recognition of actuarial gains and losses in a public sector entity's statement of financial position, and measurement of plan assets at market value;

(b) no recognition of actuarial gains and losses in the statement of operations; and

(c) requiring the rate used to discount a public sector entity's defined benefit obligation to reflect the time value of money.

BC.21 By comparison, Sections PS 3250 and PS 3255 include three deferral provisions:

(a) the recognition of actuarial gains and losses relating to defined benefit plans and post-employment benefits that vest or accumulate over the expected remaining service life of the related employee group;

(b) the recognition of actuarial gains and losses relating to defined benefit plans and post-employment benefits that do not vest or accumulate over a period linked to the type of benefit; and

(c) the measurement of plan assets at a value that is adjusted to market value over a period not to exceed five years.

BC.22 In developing proposed Section PS 3251, PSAB considered whether removing deferral provisions, per IPSAS 39, was appropriate for application in Canada based on the Canadian public interest.

BC.23 Section PS 3250 does not provide prescriptive guidance regarding the rate used to discount a public sector entity's defined benefit obligation. Appendix B of Section PS 3250 refers to two discount rates to illustrate the principle that actuarial assumptions underlying the valuation of the retirement benefit liability and expense should be internally consistent. In practice:

(a) the expected return on plan assets is often used to determine the present value of the accrued benefit obligation of benefit plans that are fully or partially funded; and

(b) the entity's cost of borrowing is often used to determine the present value of the accrued benefit obligation of benefit plans that are unfunded.

BC.24 In developing proposed Section PS 3251, PSAB considered whether the application of IPSAS 39 discount rate principles was appropriate for application in Canada based on the Canadian public interest.

Defined benefit plans – deferral provisions

BC.25 In November 2016, PSAB issued its Invitation to Comment, “Deferral Provisions.” Deferral provisions, such as those in Section PS 3250, were common features in employee benefits standards that have been superseded in both the public and private sectors internationally. The Board considered whether deferral provisions that currently exist remain appropriate and amending IPSAS 39 principles for application in Canada is justified. Respondents expressed three different points of view.

Recognition of actuarial gains and losses in the statement of operations

BC.26 More than half of the respondents to the Invitation to Comment supported deferred recognition of actuarial gains and losses in annual surplus or deficit. Their rationale included:

(a) mitigation of short-term fluctuations;

(b) stability and predictability of financial results; and

(c) all gains and losses are eventually recognized in the statement of operations.

BC.27 Respondents to the Invitation to Comment who supported the recognition of actuarial gains and losses in net assets or net liabilities without subsequent recognition in surplus or deficit (no-recognition approach) provided the following rationale:

(a) elimination of volatility in annual surplus or deficit;

(b) facilitation of budget to actual comparison;

(c) consistency with other equivalent standards;

(d) removal of remeasurements that do not have predictive value; and

(e) reduction in budgetary pressures and potential sub-optimal decisions.

BC.28 Respondents to the Invitation to Comment who supported immediate recognition of actuarial gains and losses in surplus or deficit (immediate recognition approach) provided the following rationale:

(a) simplicity and understandability of the approach;

(b) providing users with the most transparent and up-to-date best estimate information;

(c) greater faithful representation of the risks associated with defined benefit plans;

(d) recognition of the volatile nature of the underlying transactions and events; and

(e) consistency with the accounting for changes in other accounting estimates.

BC.29 After it issued the Invitation to Comment, PSAB decided to develop the July 2021 Exposure Draft beginning with IPSAS 39 principles, with amendments where these principles were contrary to the Conceptual Framework or were inappropriate in Canada based on the Canadian public interest (paragraph BC.09). The Board determined the IPSAS 39 principles that related to the recognition of actuarial gains and losses were consistent with the Conceptual Framework. In addition, the Board did not identify sufficient rationale based on feedback to the Invitation to Comment to support amendment of IPSAS 39 principles appropriate for the Canadian public interest. Accordingly, the Board decided that the no-recognition approach, aligned with IPSAS 39 principles, would provide relevant and understandable information and a faithful representation of the liability associated with defined benefit plans on a public sector entity’s financial statement.

BC.30 PSAB's deliberations considered respondents' views to the Invitation to Comment, as outlined in paragraphs BC.26-BC.29, and the Canadian public interest. During these deliberations, the Board considered the impact of not permitting reclassification of amounts included in revaluations of the net defined benefit liability or asset into the statement of operations. Though not reclassifying revaluation gains or losses into the statement of operations may result in more short-term volatility in net debt, the Board concluded that the volatility would decrease over the long term as revisions to underlying assumptions occurred. In addition, through recognition of current service cost in the statement of operations, a public sector entity would accurately reflect the cost of the defined benefit obligations and the underlying assumptions. These deliberations also identified the difficulty in determining an appropriate, systematic and rational basis by which to reclassify revaluations of the net defined benefit liability or asset into the statement of operations. With no appropriate basis by which to reclassify these remeasurements, and considering the impact over the long term, the Board determined that the existing IPSAS 39 principles would be appropriate for application in Canada.

BC.31 A no-recognition approach for actuarial gains and losses in the statement of operations has implications for the statement of financial position:

(a) immediate recognition of actuarial gains and losses in the net defined benefit liability or asset (i.e., whether the liability or asset would include an unamortized actuarial gains and losses component) as discussed in paragraphs BC.32-BC.33; and

(b) the related issue of how revaluation gains and losses, including actuarial gains and losses, will be reflected initially and in subsequent periods, as discussed in paragraphs BC.37-BC.39. That is, whether to allow subsequent reclassification of revaluation gains or losses of the net defined benefit liability (asset) from the "accumulated other" component of net assets or net liabilities to the statement of operations.

Recognition on the statement of financial position

Recognition within the net defined benefit liability (asset)

BC.32 In its Invitation to Comment, PSAB asked whether the net defined benefit liability or asset should contain an unamortized actuarial gains and losses component. Most respondents supported immediate recognition of actuarial gains and losses in the net defined benefit liability or asset, with accumulated actuarial gains and losses reflected as a component of net assets lor liabilities. They noted that this approach:

(a) provides a more faithful representation of the public sector entity's financial position;

(b) increases understandability for users of the financial statements;

(c) provides users with the most transparent and up-to-date information; and

(d) increases comparability with other equivalent standards.

BC.33 Other respondents supported the deferred recognition approach, with initial recognition of unamortized actuarial gains and losses as a component of the net defined benefit liability or asset, and subsequently amortized to net assets or liabilities. These respondents raised concerns over the impact of immediate recognition on net debt and the associated volatility that may arise.

BC.34 In its deliberations on whether to allow initial recognition of unamortized actuarial gains and losses as a component of the net defined benefit liability (asset), PSAB considered respondents' views and Canadian public interest. As discussed in paragraph BC.30, deliberations focused on the long-term impact within net assets or net liabilities as well as the difficulty in determining an appropriate, systematic and rational basis by which to amortize these remeasurements. IPSAS 39 principles require recognition of actuarial gains and losses in the net defined benefit liability (asset). Ultimately, the Board concluded that the existing IPSAS 39 principles would be appropriate for application in Canada.

BC.35 Following the IPSAS 39 principles would, in PSAB's view:

(a) allow public sector entities to demonstrate accountability through transparent and understandable financial information without the use of complex amortization; and

(b) faithfully represent the financial position of the plan and the best estimate of the value of the accrued benefit obligation and plan assets.

BC.36 The IPSAS 39 principles for recognition of actuarial gains and losses within the net defined benefit liability (asset) are consistent with the Conceptual Framework and in the Canadian public interest.

Recognition within net assets or net liabilities

BC.37 Pursuant to IPSAS 39 principles, revaluation gains or losses of the net defined benefit liability (asset) consist of:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Consequently, included in this group of revaluation gains and losses are both realized and unrealized components.

BC.38 PSAB concluded that it may be challenging for some entities to split apart the realized and unrealized components of these revaluation gains or losses as would normally be expected for remeasurement gains and losses under FINANCIAL INSTRUMENTS, Section PS 3450. Furthermore, the Board concluded that attempting to do so may result in decreased accountability due to the overly complicated reporting. The Board considered including all revaluation gains or losses related to defined benefit liabilities (assets) in the accumulated other category of net assets or net liabilities to differentiate them from unrealized remeasurement gains and losses related to financial instruments, which may subsequently be recycled to the statement of operations. In developing the July 2021 Exposure Draft, recognition of revaluation gains or losses within accumulated other was proposed.

July 2021 Exposure Draft feedback

BC.39 Overall, feedback to the July 2021 Exposure Draft was consistent with feedback the Invitation to Comment (paragraphs BC.27-BC.28 and BC.32). In deliberating the feedback, PSAB found no new, significant or compelling reasons to support amending principles proposed in the Exposure Draft that are aligned with IPSAS 39. Accordingly, when developing the Re-exposure Draft, the Board maintained its support for the immediate recognition of revaluation gains and losses on the statement of financial position, with no subsequent recognition or recycling in the statement of operations.

BC.40 Some respondents to the July 2021 Exposure Draft raised concerns about the recognition of revaluation gains or losses of net defined benefit liabilities or assets within accumulated other, questioning the appropriateness of separating remeasurements related to employee benefits from other balances included within accumulated remeasurement gains and losses. In its deliberations, PSAB concluded that, based on their nature, revaluation gains and losses on net defined benefit liabilities or assets should be recognized in accumulated remeasurement gains and losses. However, they should be presented separately in that component from other remeasurement balances for enhanced transparency.

BC.41 In arriving at this decision, PSAB decided to revert to the phrase "remeasurement gains and losses" instead of continuing to use "revaluation gains and losses" as proposed in the July 2021 Exposure Draft. "Remeasurement" better reflects their substance and "revaluation" was used in the Exposure Draft merely to highlight the difference from remeasurement gains and losses arising from financial instruments measured at fair value. Separate reporting within the remeasurement gains and losses component would achieve the same differentiation.

Remeasurement gains or losses on net defined benefit liabilities (assets) on settlement of a plan

BC.42 The July 2021 Exposure Draft did not explicitly address the treatment of remeasurement gains and losses on a net defined benefit liability or asset on the settlement of a plan. Respondents asked PSAB to clarify the treatment of remeasurements on plan settlement. The Board deliberated whether remeasurement gains or losses on net defined benefit liabilities (assets) that may remain on the settlement of a plan should be reclassified to accumulated surplus or deficit. While IPSAS 39 prohibits reclassifying remeasurements to surplus or deficit in a subsequent period, it does not prohibit these amounts from being reclassified within net assets/equity itself.

BC.43 PSAB considered whether remeasurement gains or losses on net defined benefit liabilities (assets) that remain on settlement of a plan should remain in the accumulated remeasurement gains and losses component indefinitely, as they do not meet the definition of accumulated surplus or deficit as defined in FINANCIAL STATEMENT PRESENTATION, Section PS 1202. Section PS 1202 notes that the accumulated surplus or deficit component of net assets or net liabilities represents "an accumulation of past surpluses and deficit."

BC.44 Proposed Section PS 3251 requires that remeasurement gains or losses on net defined benefit liabilities (assets) not be reclassified to surplus and deficit in a subsequent period, as there is no identified systematic and rational basis for such a reclassification. Reclassification of such remeasurement gains or losses on settlement of a plan to surplus and deficit would result in recognition of these gains and losses in a period that did not give rise to them.

BC.45 Ultimately, PSAB determined that permitting net reclassification, where practicable, of any remeasurement gains or losses on net defined benefit liabilities (assets) that remain on settlement of a plan to accumulated surplus or deficit would be in the public interest. This approach would allow for public sector entities to differentiate remeasurement gains and losses related to active defined benefit plans, which would continue to be recorded in accumulated remeasurement gains and losses, from remeasurement gains and losses related to settled plans, which would be reclassified to accumulated surplus or deficit. As a result, the Board determined that permitting net reclassification of accumulated remeasurement gains and losses to accumulated surplus or deficit upon settlement would provide increased transparency and understandability for financial statement users by aligning the presentation of balances on the statement of financial position with the substance of the arrangement.

Defined benefit plans – discount rate guidance

BC.46 Paragraph BC.20(c) discusses the IPSAS 39 principles related to discount rate guidance and paragraph BC.23 discusses the Section PS 3250 principles. In reaching its conclusion on the matter, PSAB considered feedback to the Invitation to Comment, "Discount Rate Guidance."

Funding status

BC.47 When asked if they supported different discount rate guidance for fully funded, partially funded and unfunded plans, respondents to PSAB's Invitation to Comment were split. Those who did not support the proposal argued that a single discount rate would provide users with an estimate of the accrued benefit obligation that is more reliable, comparable and easily understood. They also argued that a single rate would simplify the application of the guidance and enhance the consistency of application. Furthermore, the public sector entity's funding level does not affect the measurement of the underlying promise to provide benefit payments to plan members when due. Respondents who supported the proposal argued that all public sector pension plans are unique and that one rate for all may be inappropriate. They also highlighted the strong governance frameworks that may require some plans be funded to a certain degree, thus making the funding status an important factor to consider when developing discount rate guidance.

BC.48 In assessing the discount rate principles contained in IPSAS 39, PSAB considered the unique aspects of Canadian public sector pension plans and the feedback received from responses to the Invitation to Comment. Specifically, the Board considered:

(a) the Canadian public sector pension plan environment and its comparative strength to other jurisdictions; and

(b) the impact of a single discount rate approach and the appropriateness of a consistent application of a single discount rate regardless of funding status.

BC.49 PSAB determined that considering the plan's funded status in the selection of a discount rate would better serve the Canadian public interest by reflecting the unique nature of the Canadian public sector pension plans as it relates to funding status and governance structures.

BC.50 Consequently, the July 2021 Exposure Draft proposed that different discount rates be used to discount the net defined benefit liability (asset) based on a quantitative assessment of the plan's funding status. Accordingly, a public sector entity would apply a discount rate that reflects:

(a) **For fully funded plans** – The expected market-based return on plan assets. The discount rate would incorporate and reflect the market's expected return on each of the asset classes in the plan's investment portfolio. The Board determined that this would result in a net defined benefit liability (asset) that more faithfully represents the public sector entity's obligation to the plan and the substance of the plan arrangement.

(b) **For partially funded plans** – Two things:

(i) the expected market-based return on plan assets for periods where the plan assets balance is projected to be greater than or equal to projected benefit payments for the period; and

(ii) the market yields of provincial government bonds for periods where the plan assets balance is not projected to be greater than or equal to projected benefit payments for the period.

(c) **For unfunded plans** – The market yields at the end of the reporting period on Canada's deep market of established provincial government bonds, with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations.

July 2021 Exposure Draft feedback

BC.51 Most respondents supported the July 2021 Exposure Draft proposal to apply a differentiated discount rate based on a plan's funding status. However, many respondents raised concerns over the proposed funding status assessment for determining a plan's funding status. These concerns included:

(a) a perceived high level of technical complexity to apply;

(b) high administrative and financial cost to perform the assessment; and

(c) difficulties in applying the funding status assessment to diverse pension arrangements, including non-traditional pension plans, which may result in diversity in practice.

BC.52 Other concerns respondents raised about the proposed discount rate guidance included:

(a) the appropriateness of prescribing provincial bond yield rates for discounting unfunded benefit plans;

(b) a disagreement with the prescription of an expected market-based return on plan assets discount rate for fully funded plans; and

(c) the difficulty in measuring expected market-based return on plan assets for certain types of investments, such as infrastructure.

Amendment of IPSAS 39 discount rate guidance

BC.53 Some July 2021 Exposure Draft respondents expressed concern about PSAB's decision to amend IPSAS 39 discount rate principles. These respondents argued that Canadian public sector pension plans were not sufficiently different from Canadian private sector or international public sector pension plans to support an amendment of IPSAS 39 principles in the Canadian public interest.

BC.54 In reviewing feedback to the July 2021 Exposure Draft, PSAB considered the basis for amending IPSAS 39 discount rate guidance in developing the Re-exposure Draft. The Board's due process requirements and consultative outreach activities inform these considerations. The Board reaffirmed its view that the international strategy and adaptation of IPSAS principles was intended to complement, not override, its mandate to issue high-quality Canadian Public Sector Accounting Standards (PSAS) that serve the public interest. This includes considering alternative accounting treatments to achieve and balance the qualitative characteristics of information reported in financial statements and related considerations.[8]

BC.55 PSAB determined that both a single discount rate approach aligned with IPSAS 39, and a differentiated discount rate approach that provides incremental improvement to the long-standing measurement principles under existing Section PS 3250, would provide relevant, faithfully representative, verifiable, comparable, understandable and timely financial information. However, evidence was inconclusive that either approach would unequivocally result in greater improvements to the qualitative characteristics of information reported in financial statements.

BC.56 In the absence of conclusive evidence that either discount rate approach provided unequivocally greater incremental improvement to the qualitative characteristics of information reported in financial statements, PSAB's standard-setting mandate includes balancing tradeoffs that may exist between considerations relevant to the Canadian public interest, such as support for proposals from interested and affected parties, and maintaining consistency with other standard setters. For discount rate proposals, the Board acknowledged that issuing a standard that is broadly implementable and supported by interested and affected parties remains in the public interest, as determined by feedback from consultative outreach activities required by its due process. Consequently, the Board determined that retaining a differentiated discount rate approach would be responsive to the support received through its consultative due process.

BC.57 While the proposed differentiated discount rate approach is inconsistent with other standard setters, it is a technically defensible approach that provides an incremental improvement over the absence of prescriptive discount rate principles in existing Section PS 3250, while maintaining the support of public sector entities that apply public sector standards. In response to feedback, PSAB proposed simplifying the funding status assessment for determining a plan's funding status and the prescribed discount rate for measuring defined benefit liabilities.

8 For further information on the qualitative characteristics of information reported in financial statements, see Chapter 7 of the Conceptual Framework.

Simplifying the funding status assessment

BC.58 Most respondents to the July 2021 Exposure Draft raised concerns over the nature of the proposed funding status assessment for determining a plan's funding status and prescribed discount rate for the measurement of a defined benefit liability.

BC.59 Most respondents noted that the requirement to prepare an annual quantitative assessment would introduce significant additional complexity for financial statement preparers, placing onerous financial and administrative burden on them.

BC.60 Other respondents raised concerns over the sufficiency and clarity of the proposed funding status assessment, noting that the approach may be inappropriate for application to the diverse forms of plan arrangements that exist in the Canadian public sector. They noted that additional prescriptive amendments to future guidance on non-traditional plans may be required to resolve these issues.

BC.61 In response to the feedback, PSAB made several simplifying and/or clarifying amendments to the proposed discount rate principles, including adopting an integrated funding status assessment approach. PSAB determined that a funding status assessment that uses:

(a) quantitative indicators based on existing legal, regulatory or contractually based actuarial valuations for funding purposes; and

(b) qualitative indicators of a plan's funding status would meaningfully simplify the discount rate guidance in response to feedback.

BC.62 Under this approach, primary indicators of a plan's funding status would include:

(a) a legal, regulatory or contractual funding requirement; and

(b) the quantitative evidence of a plan's funding status based on its most recently prepared actuarial valuation for funding purposes.

BC.63 Secondary indicators (e.g., the plan's funding policy and history of corrective actions) may provide more evidence supporting management's assessment that a plan is fully funded where the primary indicators do not faithfully represent the plan's funding status at the financial reporting date. PSAB agreed that professional judgment is required to assess the circumstances and characteristics for each post-employment benefit plan. The Board, therefore, decided to exclude further prescriptive guidance for assessing a plan's fully funded status, beyond defining fully funded plans as having sufficient assets set aside to satisfy its obligations.

BC.64 Respondents to the July 2021 Exposure Draft noted that including a partially funded plan status was a significant driver for the complexity of the proposed quantitative funding status assessment. PSAB determined that removing prescriptive guidance for partially funded plans responded to feedback. Proposed Section PS 3251 prescribes discount rate for a defined benefit plan based on a binary approach of whether a plan is fully funded or underfunded.

BC.65 Finally, prescriptive discount rate guidance for underfunded plans was amended to fully align with IPSAS 39. To simplify proposed Section PS 3251, PSAB determined an underfunded plan discount rate should be based on an entity's judgment of the financial instrument(s) that best reflect the time value of money for a plan, rather than prescribing a rate based on provincial government bonds.

Other topics

BC.66 As noted in paragraph BC.13, as part of revising the Employee Benefits project plan, PSAB determined that developing the revised standard by using IPSAS 39 principles was the best approach to provide a high-quality solution to respondents in a timely manner. Therefore, the principles proposed in the July 2021 Exposure Draft relating to topics outside of those already discussed in this Basis for Conclusions were largely unmodified from IPSAS 39. These principles are retained in proposed Section PS 3251. In its deliberations, the Board noted that the intention of the principles of Section 3251, excluding changes to discount rate guidance and deferral provisions, was to leave the substance of current accounting practice for other topics largely unchanged, even though the wording of the principles and guidance may differ from existing Sections PS 3250 and PS 3255. However, the Board did consider further amendments to proposed Section PS 3251 for certain topics, in response to feedback to the July 2021 Exposure Draft.

Social benefit programs

BC.67 Several respondents to the July 2021 Exposure Draft raised concerns over the potential inclusion of Canadian social benefit programs within the scope of the standard. Concern was raised over the proposed guidance to include all employee benefits under legislative requirement, or constructive obligation, whereby a public sector entity is required to contribute to a national, provincial, territorial, municipal or industry pension plan. Respondents questioned whether this guidance would result in programs that provide benefits for a broad population (e.g., the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP)) to fall within the scope of the standard.

BC.68 While social benefit programs may be funded in part through contributions of Canadian public sector employees, the benefits provided are not disbursed by a public sector entity in exchange for services rendered by employees. Rather, such plans exist to provide benefits in accordance with social policy objectives, providing benefits to:

(a) specific individuals or households who meet eligibility criteria;

(b) mitigate the effect of social risks; and

(c) address the needs of people in Canada as a whole.

BC.69 Disbursements for social benefit programs are broader than the included government reporting entities or their employees. Although payments for such programs are impacted by income earned from service rendered by employees to a public sector entity, the benefits provided do not meet the requirement of being in exchange by a public sector entity for services provided by an employee of said entity.

BC.70 Accordingly, the Section was amended to explicitly exclude social benefit programs from its scope, consistent with PSAB's original intent for this project. In the absence of a standard for these plans, GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, allows the leveraging of primary sources of generally accepted accounting principles (GAAP) and the GAAP hierarchy to use standards such as the International Public Sector Accounting Standards (IPSAS), in drafting an entity-developed accounting policy for such programs.[9]

Multi-employer plans and sufficient information

BC.71 Some respondents disagreed with the requirement to disclose reasons why sufficient information is not available to enable the participating public sector entities to account for the plan as a defined benefit plan. These respondents believed the requirement was unnecessary for these reasons:

(a) Multi-employer pension plans may be independent entities that bear all the risks related to paying out employee benefits under the plan. Therefore, participating employers have no obligations other than to make contributions.

(b) Multi-employer plans were created to allow for pooling of assets, and were not designed to track information at the individual participant level.

(c) Even without conducting an assessment, sufficient information would not be available and, therefore, no change in their accounting would result.

9 Paragraph PS 1150.03(b) defines "entity-developed accounting policies".

BC.72 Respondents to the July 2021 Exposure Draft also raised concerns over the ability of plan administrators to supply information to participants of such plans to assist them in accounting for their proportionate share of the defined benefit multi-employer plan, which included:

(a) increased administrative burden and cost related to providing information to participating entities;

(b) increased burden on participating entities to prove whether sufficient information was available to comply with new disclosure requirements;

(c) the potential need for estimation techniques to provide information to participating entities, which may yield unreliable results;

(d) the inability to track movements of employees between participating employers; and

(e) difficulties in allocating actuarial gains or losses to individual plan employers.

BC.73 PSAB deliberated the respondents' views as well as the draft guidance for multi-employer plans and disclosure requirements accompanying them. The Board acknowledged that an assessment to determine whether sufficient information was available to participants to enable them to account for their proportionate share of a defined benefit multi-employer plan obligation was not required in RETIREMENT BENEFITS, Section PS 3250. The Board determined that the July 2021 Exposure Draft guidance was an improvement over the blanket exemption from defined benefit accounting provided to participants of such plans in Section PS 3250, which instructed public sector entities to apply defined contribution accounting as a default. It was acknowledged that the new requirements may result in additional work for participating entities of multi-employer plans and third-party pension administrators. The Board clarified that the requirements would result, at a minimum, in an assessment of sufficient information, but not necessarily in a default to defined benefit accounting for all participants of such plans. Further, the Board noted the guidance provided for consideration of practical circumstances where sufficient information would not be available. On balance, the Board considered the accounting guidance requiring an assessment of the existence of sufficient information and the related disclosures to be an improvement over existing guidance related to such plans. The Board concluded that the guidance for such plans was conceptually sound and provided enhanced informational and accountability value for users.

Category-wide plans

BC.74 The July 2021 Exposure Draft defined "category-wide plans" and provided specific guidance for their accounting. Some respondents stated that they were unaware of any plan that met the definition of a "category-wide plan" in the Canadian public sector and, thus, they believed this guidance was irrelevant.

BC.75 Other respondents questioned what type of plan category-wide-plan guidance was intended to address and whether such guidance was intended to capture the accounting for social benefit plans (e.g., CPP or QPP).

BC.76 Other comments noted that it was unclear how category-wide plans differed from multi-employer plans and questioned the need for guidance related to such plans when they were to be accounted for in the same manner as multi-employer plans.[10]

BC.77 Some respondents noted that the guidance for category-wide plans included a rebuttable presumption in reference to "controlled" entities[11] when "defined benefit plans that share risks among various public sector entities under common control are not multi-employer plans." Thus, July 2021 Exposure Draft respondents found guidance provided within the proposed standard to be seemingly inconsistent in this regard.

10 See July 2021 Exposure Draft, paragraph PS 3251.43.

11 See July 2021 Exposure Draft, paragraph PS 3251.46.

BC.78 Other respondents suggested that the proposed standard's readability would be improved if the guidance could be simplified and consolidated.

BC.79 Others who supported the guidance did so on the basis that the proposals may gain relevance in the future based if there are innovations in plan arrangements within Canada. Some suggested further clarification of and amendments to the guidance.

BC.80 PSAB deliberated and decided that no equivalent guidance for category-wide plans currently exists. Therefore, removing this guidance from the standard is not expected to result in a change in practice for interested and affected parties. The Board concluded that removing the category-wide guidance will achieve the objective of simplifying guidance in the standard by eliminating a class of plans for which the accounting treatment is the same as other multi-employer plans. The Board concluded that the category-wide plan guidance could not be retained without amending the definition and substantially altering the substance of the guidance. Also, the definition could not be further amended in a manner that serves the purpose of certain plan arrangements without significantly amending the substance of category-wide plan guidance, while excluding other arrangements for which the guidance may not be intended. Furthermore, the Board noted that category-wide plans are not prevalent in Canada.

Joint defined benefit plans

BC.81 Guidance on joint defined benefit plans is not included in IPSAS 39 but is included in existing Section PS 3250 and in the July 2021 Exposure Draft. While this first phase of PSAB's Employee Benefits project focuses on basic principles relating to discount rate guidance and deferral provisions, the Board acknowledges that many Canadian public sector entities currently use the existing joint defined benefit plan guidance. Therefore, the Board determined it would serve the Canadian public interest to include the guidance in the first phase of the project, with minor modifications from the existing requirements. During a future phase of the project, the Board will deliberate this Section's principles and guidance that relate to risk-sharing and non-traditional plans.

BC.82 In developing the July 2021 Exposure Draft, PSAB made minor modifications to the existing joint defined benefit plan guidance to change existing legal terminology to accounting terminology, replacing the term "sponsor" with the phrase "participating entities". In addition, the July 2021 Exposure Draft directed public sector entities to follow multi-employer plan guidance in accounting for their proportion of the joint defined benefit plan obligation. The Board determined that directing public sector entities to multi-employer plan guidance would help clarify the existing joint defined benefit plan guidance.

BC.83 Respondents to the July 2021 Exposure Draft raised concerns that the proposal to use multi-employer plan principles may permit a public sector entity to use defined contribution accounting in the measurement of a joint defined benefit plan, where insufficient information exists to follow defined benefit accounting. PSAB agreed that its intent in the July 2021 Exposure Draft was to include key principles from existing Section PS 3250 for these plans, without substantial modification. In response to feedback, the Re-exposure Draft requires public sector entities to follow defined benefit accounting for the measurement of their proportionate share of a joint defined benefit plan.

Defined benefit plans – valuation of plan assets

BC.84 Most respondents to PSAB's Invitation to Comment supported valuing plan assets at market value or fair value. Rationale for market value included:

(a) faithful representation of the best estimate of the value of plan assets;

(b) enhanced comparability among public sector entities;

(c) consistency with the measurement of other financial assets managed on a fair value basis;

(d) consistency with how plan assets are measured in the plan's financial statements; and

(e) consistency with other equivalent standards.

BC.85 Other respondents supported a market-related approach to valuing plan assets, which would permit plan assets to be adjusted to fair value over future periods. The rationale for retaining the existing Section PS 3250's market-related value approach included:

(a) minimizing short-term fluctuations;

(b) providing a close approximation of current economic value; and

(c) reflecting better the long-term nature of plan assets in relation to the obligation settlement period.

BC.86 In developing the July 2021 Exposure Draft, PSAB determined that the existing IPSAS 39 principles requiring plan assets to be recognized at fair value, consistent with the market value approach (see paragraph BC.84), are in line with the Conceptual Framework and are appropriate in the context of the Canadian public interest. The Board concluded that maintaining the existing IPSAS 39 principles would provide useful information to financial statements users over the market-related value approach of existing Section PS 3250, because market value:

(a) faithfully represents the best estimate of the value of the assets set aside and restricted for meeting the obligation at the financial statement date; and

(b) provides relevant, verifiable, transparent, easy-to-understand and comparable information.

July 2021 Exposure Draft feedback

BC.87 Most respondents to the July 2021 Exposure Draft supported the proposed guidance requiring plan assets to be measured at market value. Some respondents raised concerns over the proposed revised definition of "assets held by a long-term employee benefit plan", which excluded non-transferable financial instruments and unpaid contributions. These respondents noted that under existing Section PS 3250, some public sector entities may include non-transferable debt as plan assets in their defined benefit pension plan to cover actuarial deficits.

BC.88 The Basis of Conclusions for IAS 19 *Employee Benefits* explains the rationale for the International Accounting Standards Committee's decision that plan assets exclude non-transferable financial instruments issued by a reporting entity.[12] This amendment was intended to prevent entities from issuing non-transferable instruments such as non-transferable equity instruments to increase its equity and reduce its liability. While public sector entities' ability to issue equity instruments is limited, a similar issue would remain if public sector entities were permitted to include non-transferable debt instruments in plan assets. Although issuance of non-transferable debt would not reduce the overall liabilities of a public sector entity in the same way equity issuances would in the private sector, the practice may allow a public sector entity to lower and potentially understate the amount of its net defined benefit liability, through an offsetting increase in the entity's debt.

BC.89 PSAB did not identify a sufficient basis for amending the July 2021 Exposure Draft's definition of "assets held by a long-term employee benefit fund", as the definition appears to align with the Conceptual Framework. The Board also did not identify any unique characteristics of public sector pension plans to suggest the definition would be inapplicable in Canada in the Canadian public interest.

12 The predecessor to the IASB.

BC.90 In acknowledgment of the significant potential impact the revised definition would have on certain public sector plans, transitional provisions were developed to apply the proposed definition of plan assets prospectively. Accordingly, non-transferable financial instruments included in plan assets prior to the effective date of the proposed Section would continue to be recognized in plan assets (see paragraph PS 3251.200(b)).

Disclosure – other long-term employee benefits and termination benefits

BC.91 In its deliberations in drafting proposed Section PS 3251, PSAB discussed differences in disclosure requirements between existing Sections PS 3250 and PS 3255 and proposed Section PS 3251. The disclosure requirements as outlined in the proposed Section are based on the IPSAS 39 disclosure requirements and are, at times, more detailed than the existing Canadian requirements. PSAB noted that the intention behind the proposed disclosure requirements in the July 2021 Exposure Draft was consistent with the existing requirements and that the proposed disclosure requirements would provide more relevant and understandable information to financial statement users.

BC.92 Several respondents to the July 2021 Exposure Draft noted that the proposed disclosure requirements for other long-term employee benefits and termination benefits were more detailed than those of either IPSAS 39 or existing Section PS 3255 and may result in onerous disclosure for these liabilities. PSAB agreed that the proposed disclosure guidance for other long-term liabilities and termination benefits was not intended to result in additional disclosure requirements over those in IPSAS 39, and therefore amended the guidance to refer to other disclosure guidance within Section PS 3251 that may be appropriate for these liabilities.

Disclosure – discount rate sensitivity analysis for fully funded plans

BC.93 Per paragraph BC.56, PSAB determined that reflecting the funded status of a plan in the selection of a discount rate in the measurement of a defined benefit plan remains in the Canadian public interest. However, the Board acknowledged that the measurement of defined benefit obligations is subject to significant measurement uncertainty, in addition to representing a material balance for many public sector entities. Per the Conceptual Framework, the concept of prudence is inherent in the application of professional judgment,[13] including in determining the nature and extent of information to be provided in financial statements to meet the overarching accountability objective and objectives of financial statements.

BC.94 In the recognition and measurement of fully funded defined benefit plans, PSAB agreed that the existence of measurement uncertainty innate to long-term defined benefit obligations may significantly impact the assessments and judgments by financial statements users. Accordingly, the Board determined that, on a prudential basis, financial statement users would benefit from disclosure of the impact on a plan's defined benefit liability for fully funded plans if measured on an underfunded basis. Although the Board acknowledged the additional cost of requiring expanded discount rate sensitivity disclosure, the Board determined these costs are outweighed by the expected benefit to financial statement users to whom public sector entities are accountable.

Effective Date and Transition

BC.95 The ability to compare information over time is relevant, and retroactive application would result in consistent information regarding employee benefits. Comparative information, when prepared on a consistent basis, provides useful information for financial statement users. Proposed Section PS 3251 will be effective for fiscal periods beginning on or after April 1, 2029. Early adoption is encouraged.

13 Paragraph 7.45 of the Conceptual Framework states: "Prudence is the exercise of caution when making judgments under conditions of uncertainty."

In developing this Re-exposure Draft, the Public Sector Accounting Board (PSAB) used principles from International Public Sector Accounting Standard (IPSAS) 39 – Employee Benefits, as a starting point.

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